



# Chinese Logistics and Logistics in China

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## Structure

- › Introduction Logistics in China
- › Chinese 'logistics culture'
- › Observations on Chinese logistics in Europe



## Bizz Monitor 29 sept 2006

**Table: China's Social Logistics Total Value Statistics in 2005**

Project	2005 (Trillion RMB)	up by last year (%)	proportion
Social Logistics Total Value	480583	25.2	100%
Industrial Article Total Value	413161	27.2	86.0%
Agricultural Article Total Value	12748	6.5	2.7%
Imported Goods Logistics Total Value	54093	16.4	11.3%
Renewable Resources Logistics Total Value	376	15.7	0.1%
Unit and Inhabitants Logistics Total Value	205	7.7	0.0%

Source: China's logistics Information Center



## **Logistics in China: at least 5 separate systems:**

1. Wùzī (materials and goods: supplies)
2. Shāngyè (commerce: manufacturing)
3. Wàimào (import and export)
4. Gōng xiāo (distribution to rural areas)
5. Liáng shi (distribution of food)



## How did this develop?

- › Less control from central state planning
- › Consolidation of systems (materials and commerce)
- › Emergening logistics service providers in China: many management buy-outs of parts of state enterprises
- › Opening up Chinese market for foreign logistics service providers



## Overview

### › Some basic facts: macroeconomics

	GDP (bln)	Growth (%)	GDP per capita	Imports (bln)	Exports (bln)
China	4985	9.1	3.650	1113	1333
USA	14.119	-2.6	46.360	1965	1578
Germany	3.330	-4.7	42.450	1195	1360
NL	792	-4.0	48.460	493	550

2003 data, world development indicators (EUR/UB)  
All constant 2000 \$



## Overview

Some basic facts: logistics

- › Logistics spending : \$ 360 bln (20% GDP) (most developed countries: 10% of GDP (3PL about 5-10% of this market)
- › Average expected growth per year 20%
- › Inventory days
  - › Raw materials 20 days
  - › Finished products 51 days
  - › Trading commodities 34 days
- › Damage over 2 %
- › Timely delivery <90% on average





## Unnamed logistics company

Information via Luo, Wenping

- › Company owns 5 story warehouse with wooden floors, no WMS, no trucks, no forwarding
- › Need to expand services to survive in logistics market in China
- › ?: where to start: WMS, trucking, forwarding, expediting, customs clearance, value added, ...







- › Trade in waste paper and other waste products
- › Imports about 200-300 containers per week to China, out of Rotterdam/Antwerp
- › Own warehouse, use of bonded storage space in ports (but limited in time: fire!)
- › Many problems with customs inspection
- › Trucking is contracted at the port truck stop (special payment procedure, price usually includes fines)
- › Weighing cargo before departure and at arrival

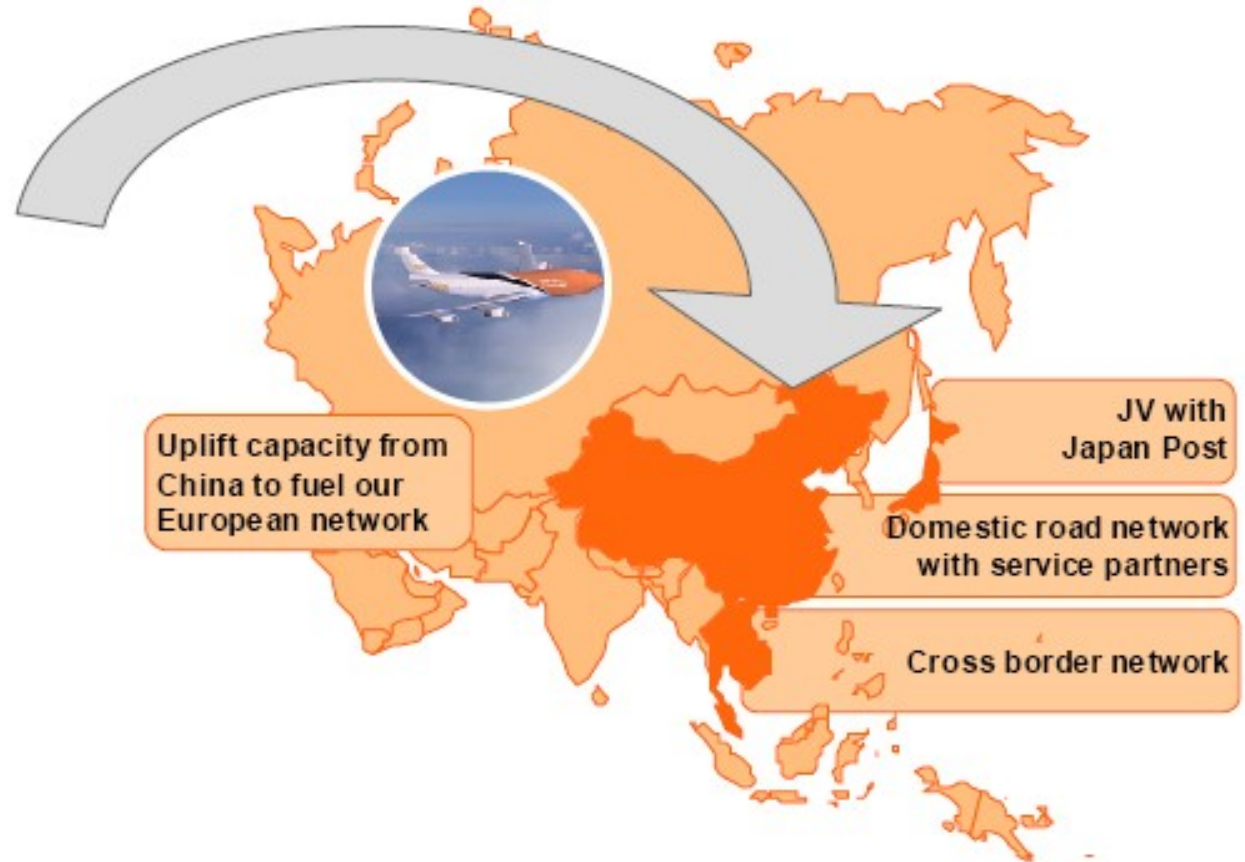


**Ciparo BV**



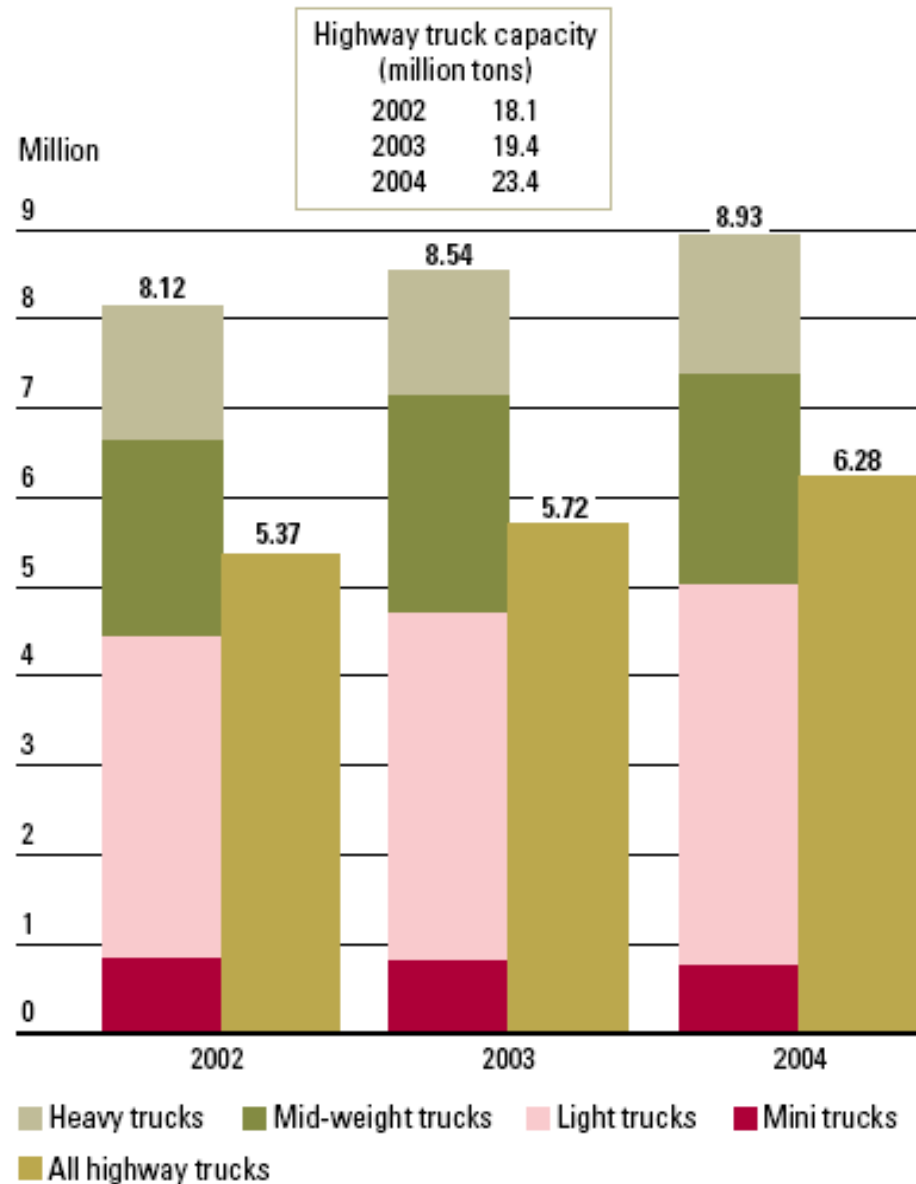


2007: merger with  
Hoau Logistics





## Freight Trucks in China





## Overview of Chinese logistics sector

- › Logistics is export logistics (customers buy FOB)
- › Many companies emerged from state conglomerates: fixed routes, products and equipment
- › originally: two national players: Kerry EAS (associated with state security dept) and Sinotrans (state freight forwarder).
- › There is no 'common market': national player needs 750+ permits .
- › Three levels of service in the market:
  - › chinese logistics for chinese companies
  - › Western logistics for western companies
  - › In house departments for Chinese multinationals

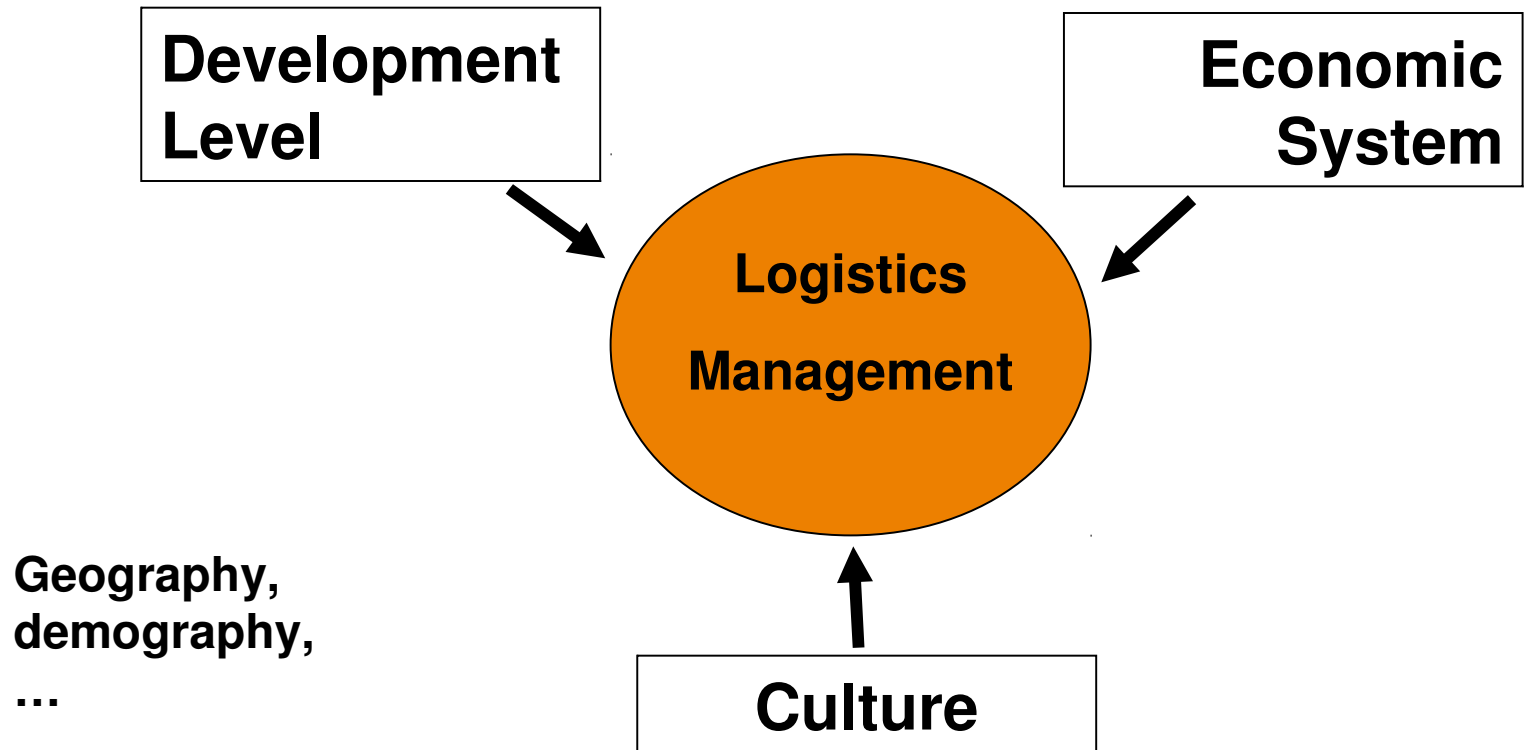


## Overview of Chinese logistics sector

- › Big risk that, as result of partnering, company offers 'chinese logistics' for western price
- › Large tendency to subcontracting (with possible negative consequences)
- › Multiple gateways due to large size of the country → European central distribution does not work
- › Many developments in infrastructure, but eventually still concentration of activities in coastal areas.
- › Very little autonomous growth in Chinese logistics companies: companies disappear as soon as Western contracts stop

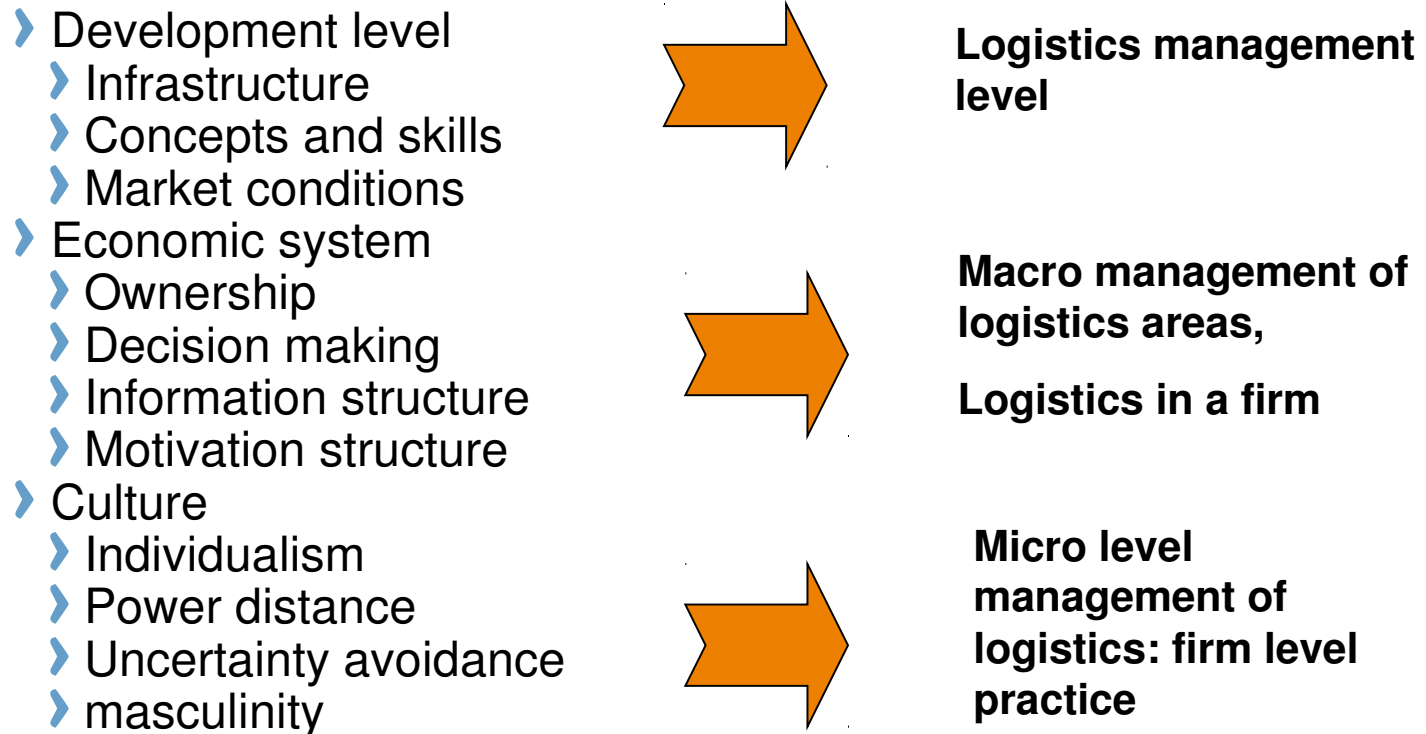


## Luo: cross cultural logistics





## Cross cultural logistics







## Some observations

- › There is/was a huge cultural divide between China and Europe; this has its repercussions for logistics performance
- › This gap is closing due to foreign trained Chinese, more experience, more mature market operations, ...
- › This gap is widening due to growing confidence of the Chinese, strengthening Chinese home market, ...



## Some observations

Strange  
fellows, these  
Chinese (?)

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Chinese Celestial

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# Globalisation is moving on as well ...

**FIGURE 5**

## Shippers Continue to Outsource a Wide Variety of Logistics Services

Outsourced Logistics Service	User Percentages				
	All Regions	North America	Europe	Asia Pacific	Latin America
Domestic Transportation	83%	75%	94%	89%	80%
International Transportation	75	62	89	86	74
Warehousing	74	73	82	77	63
Customs Brokerage	58	57	54	68	65
Forwarding	53	47	54	70	48
Cross-Docking	38	33	47	42	34
Product Labeling, Packaging, Assembly, Kitting	36	32	41	41	34
Reverse Logistics (Defective, Repair, Return)	35	27	47	46	25
Transportation Planning and Management	31	32	32	30	26
Freight Bill Auditing and Payment	28	40	22	23	15
Information Technology (IT) Services	20	20	15	19	25
Supply Chain Consultancy Services Provided by 3PLs	18	20	11	25	17
Order Entry, Processing and Fulfillment	16	17	11	21	14
Fleet Management	15	15	17	14	20
Customer Service	13	9	10	21	15
LLP/4PL Services	13	9	13	16	19

Source: 2010 15th Annual Third-Party Logistics Study

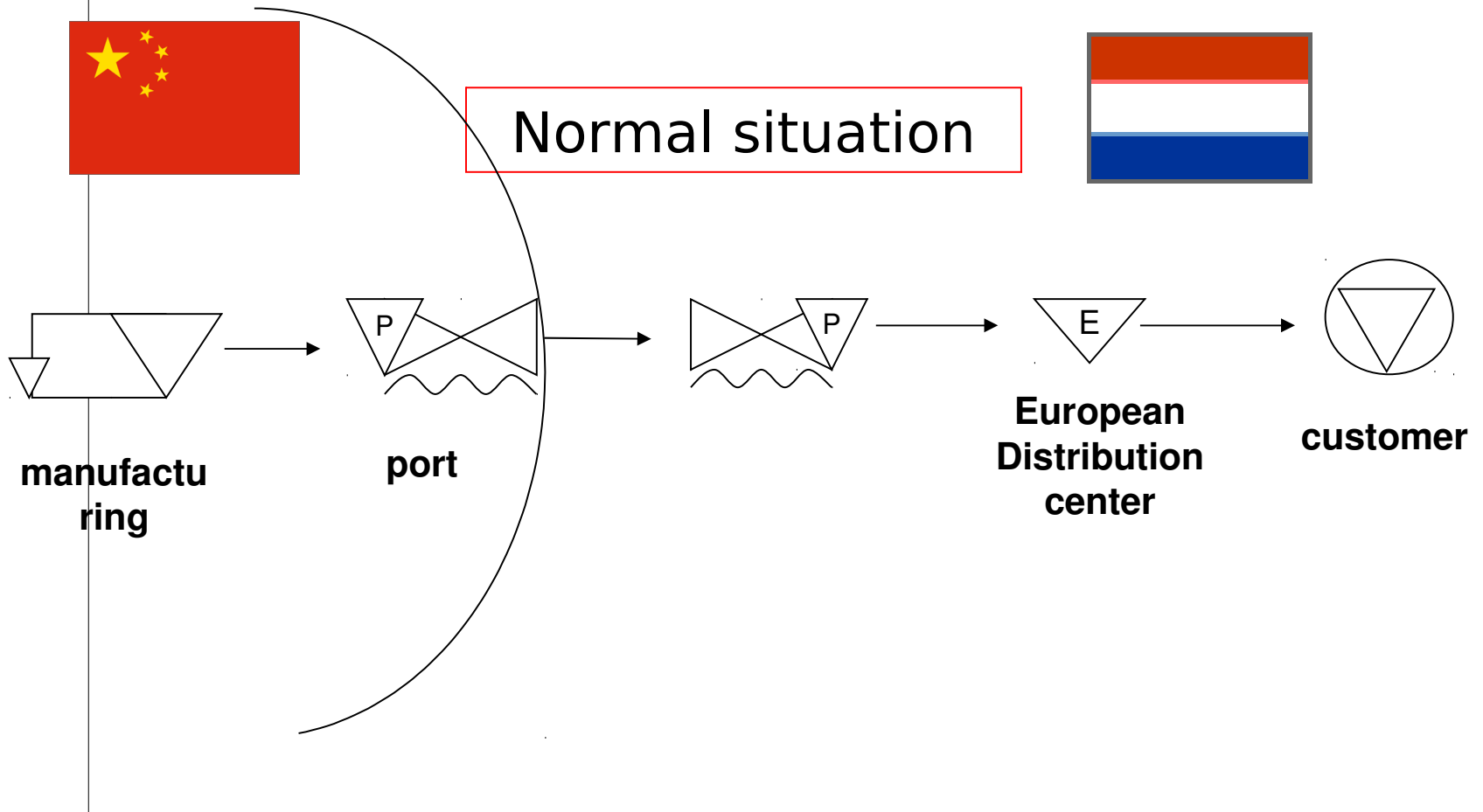


# Chinese logistics in Europe



## 'New' developments

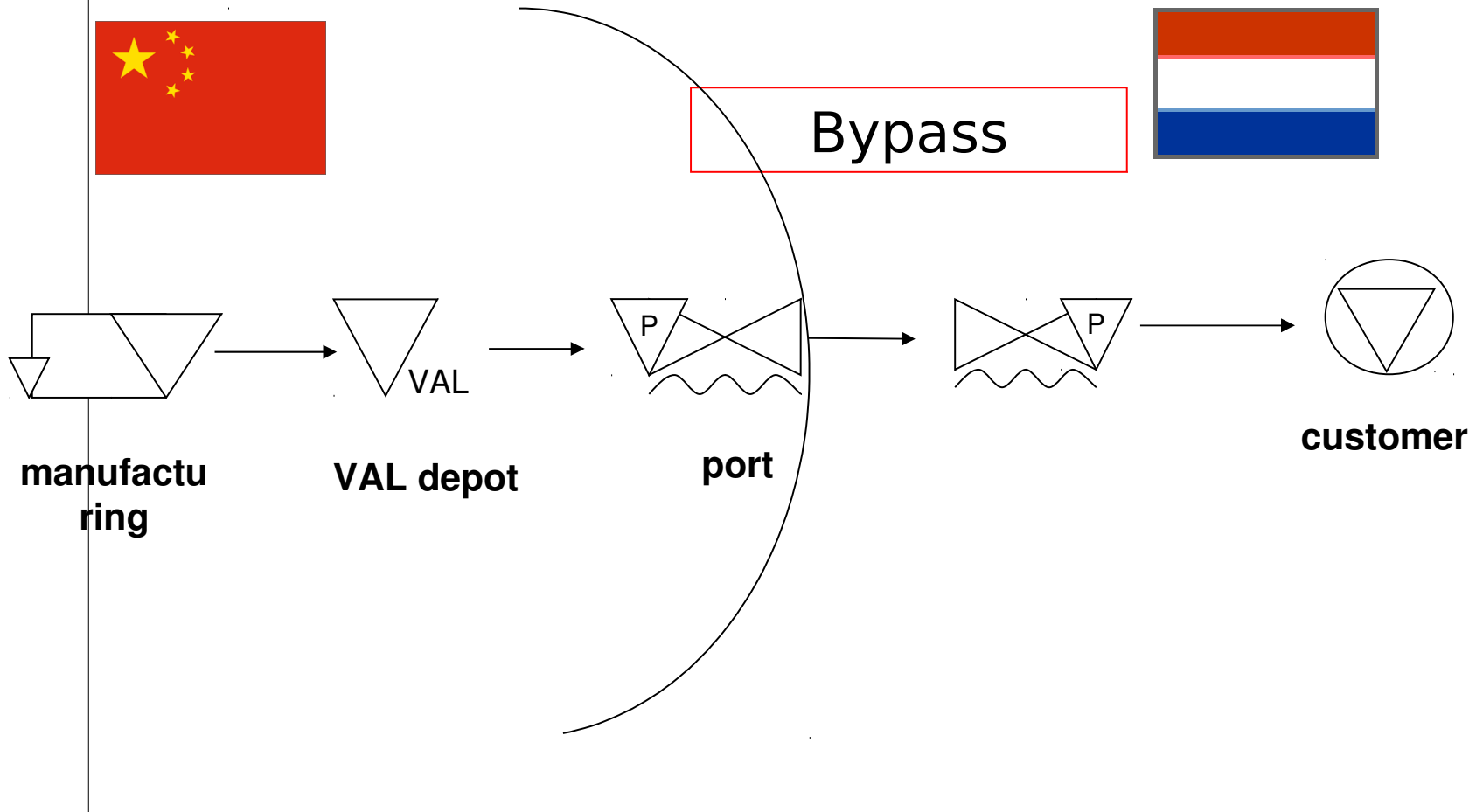
Distribution center bypass





## 'New' developments

Distribution center bypass





This sounds like a good idea, but it is  
very difficult to execute





## Chinese companies in Europe

- › ZPMC
- › HAIER
- › Huawei
- › Cosco
- › China Shipping
- › China trade centers: Roosendaal, Groningen, Zoetermeer
  - › Longmec Trading B.V.
  - › Golden Leaf International B.V.
  - › Yuanlong International Trading BV
  - › HYQUACHEM B.V
  - › COFCO FUJIAN CORPORATION B.V.
  - › China Hunan Chem Europe B.V.
  - › And many more ...



## **Why do Chinese companies choose Netherlands as a location?**

- › Strength of logistics competences/network
- › Dutch innovation talent (design/R&D)
- › Fiscal structure
- › Other location criteria (education, communication, connectivity, living environment, etc)



## Observations

- › Chinese brand owners who are active in Europe are very sparse (see next slide). Lenovo is the main one (but this is former IBM laptops).
- › Many other Chinese companies in Europe are small scale trading companies: their demands for logistics services are limited. Main service providers are parcel express companies, and large global forwarders.



# Chinese brands

2006 RANK	2006 BRAND VALUE (US\$ BILLIONS)	REVENUE (US\$ BILLIONS 2005)	NET INCOME (US\$ BILLIONS 2005)
1 CHINA MOBILE	35.51	30.46	6.71
2 BANK OF CHINA	10.29	24.14	3.25
3 CHINA CONSTR. BANK	8.53	16	5.9
4 CHINA TELECOM	4.01	21.22	3.5
5 CHINA LIFE	4.01	12.23	1.16
6 PING AN	1.63	8.11	0.53
7 CHINA MERCHANTS BANK	1.63	3.59	0.46
8 MOUTAI	1.32	0.43	0.14
9 BANK OF COMMUNICATIONS	0.93	6.73	1.15
10 LENOVO	0.77	12.99	0.03
11 NETEASE	0.56	0.2	0.11
12 GOME	0.48	2.26	0.06
13 ZTE	0.43	2.7	0.16
14 WULIANGYE	0.34	0.7	0.1
15 AIR CHINA	0.33	4.43	0.3
16 CHANGYU	0.29	0.21	0.04
17 VANKE	0.20	1.24	0.17
18 GREE	0.19	2.28	0.06
19 CHINA NETCOM	0.15	10.93	1.74
20 CHINA OVERSEAS PROPERTY	0.13	0.88	0.19

## MARKET INFO

DJIA	0	0.00
S&P 500	0	0.00
Nasdaq	0	0.00

Portfolio Service Update

Stock Lookup

GO

Enter name or ticker



## Some more observations

- › Western logistics service providers serve only western companies in US, Europe and China → Chinese companies will probably also bring their own service providers.
- › Chinese shipping companies (Cosco, China Shipping) are the main partners. But these do not do much logistics. Head office of Cosco Logistics is in Germany.
- › Europe is considered similar to China: large continental land-mass. Chinese companies do not believe open european borders: they choose a distribution structure with a warehouse or agent in every European member state.



# Conclusions

Chinese Logistics in Europe does not really exist yet

No Chinese service providers that play a big role inside Europe

Chinese (logistics) market is much bigger and more promising