



MARKETING MANAGEMENT IN CHINA:

WEEK 6: LOGISTICS IN CHINA

OCEAN UNIVERSITY OF CHINA

25th INTL. CHINESE BUSINESS PROGRAM

Marketing Lecture Series

Rainer Appel

Thursday, 8:00-10:00 & 10:00-12:00

Case Review

From a Chinese Consumer's Perspective



Target Customers

- **EMS: Government, Public**
- **UPS: Business & Public Parcel**
- **DHL: Indifferent market**
- **FedEx: Documents, Multinational Companies**



Price Competitiveness

- **Foreign companies offer 10-15% lower price than EMS**
(for long-distance out of country shipping)

Advertising

- **UPS, DHL:** Easy to understand
- **FedEx:** Intuition
- **EMS:** Very little
- **UPS = DHL > FedEx > EMS**



Deliveries

- **Fast, Accurate, Reliable**
- **FedEx = UPS > DHL > EMS**



Service

➤ **FedEx = UPS > DHL >> EMS**



DHL
and the
New Chinese Labor Law

Identity change



June 22, 1994



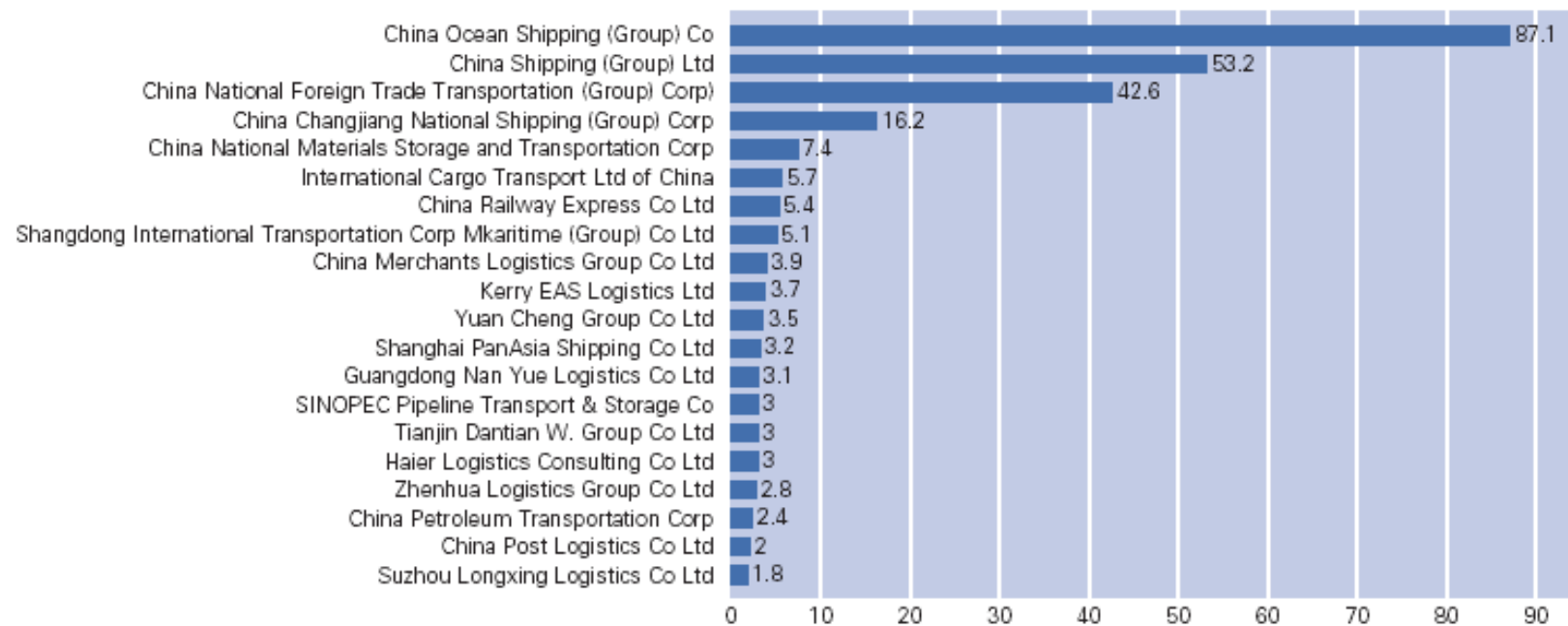
- Preserve brand identity
- Convey global ambitions
- Stand out in the growing field of global competitors

Subliminal marketing



Market Overview

China's 20 leading transport and logistics businesses, 2006 (revenue, RMB billion)



Source: KPMG, 2008

Regulatory Environment

➤ Timetable for foreign investment

	Under WTO	Source: KPMG, 2008
Freight transport by road	January 2005	
Storage and warehousing	January 2005	
Courier services	January 2006	
Freight forwarding	January 2006	
Freight transport by rail	January 2008	
Maritime transport related services*	Joint venture with foreign majority ownership allowed	
Maritime agency services	Joint venture allowed with foreign ownership not more than 49%	

➤ Still many regulatory inefficiencies remain

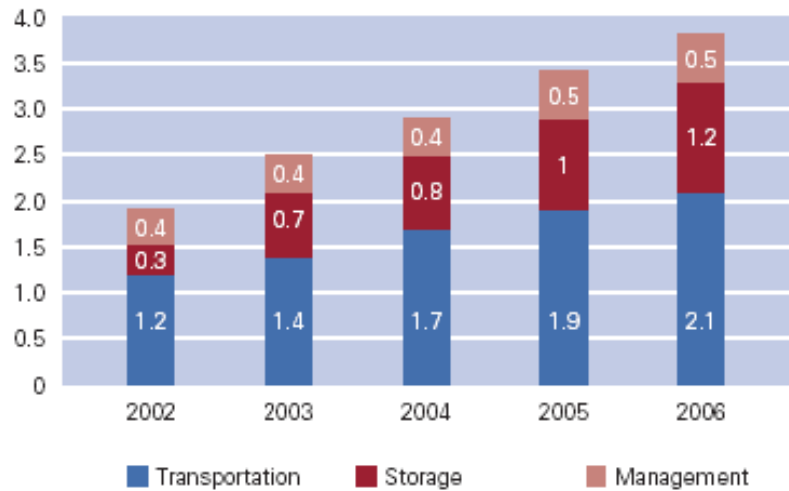
➤ *E.g. Motorola (manufactures in China through JV and WOFE)
→ separate distribution channels for each unit (due to different legal status)*

➤ E.g. to move goods within/between province(s) can be cheaper by

1. *'Exporting to Hongkong'*
2. *Re-'importing' to mainland*

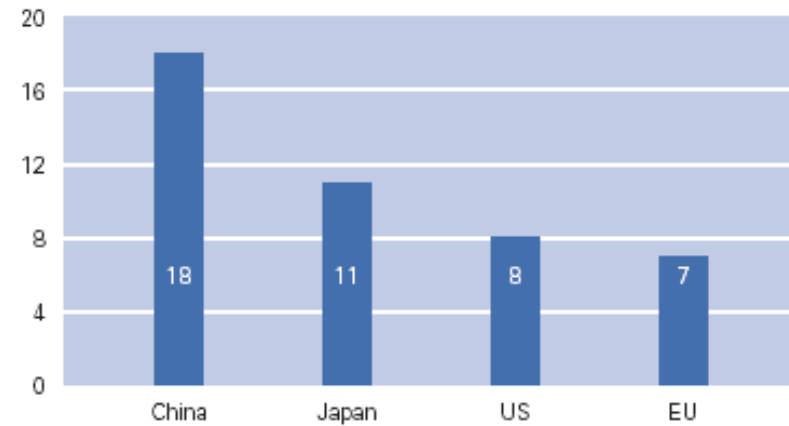
Market Overview

**Total costs of logistics, 2002-2007
(RMB trillion)**



Growth: 20% 27% 30% 33%

**Logistics costs as a percentage of GDP of
selected countries, 2006**



➤ **Retailing accounts for 75% of logistics activity**

Source: China Federation of Logistics and Purchasing, 2007

Source: EIU, ARC Advisory, DLSA

What's different with logistics in China?

➤ Existing Conditions

- Av. Logistics component of market product cost: 7-15%
 - Compared to 3-6% in mature markets
 - Logistics costs ~20% of GDP (compared to 8% in Europe)
- Excessive duplication of freight, trucking, brokerage & warehousing companies and agents
 - Wastage of investment and capital resources
- Non-standard software and IT systems
 - Inability to share best practices
- Lack of management and experienced resource pool
 - Gap will further increase

What's different with logistics in China?

- **Warehousing** (in non-costal markets)
 - Generally poorly constructed; rudimentary design
 - Inadequate or non-existent information systems
 - Lack of inventory and visibility and accountability
 - Exposure to elements – flooding is common
 - Not conducive for handling high-velocity merchandise

What's different with logistics in China?

➤ **Trucking infrastructure**

- **Fragmented market**
 - 5.4 million trucks registered
 - 2 million separate trucking providers
- **No 'true' national trucking network**
- **Only 20% of trucks are containerized**
- **High damage ratios, overloading**
- **Local protectionism and complex licensing impact trans-provincial movements**
- **High road tolls – up to 40% of total trucking cost**
- **Security – escorts required in some cases**

What's different with logistics in China?

➤ **The Good News**

- WTO – Logistics opened 2005
- Logistics spending is anticipated to grow ~8.5%
- Perceived 3PL penetration ration continues to rise (currently ~ 10%; in comparison: USA >50%)
- Continued provincial competition
- Further consolidation of logistics industry
- Foreign investors allowed to set up logistics firms (WFOE) in various business areas (air/ocean/road/storage & warehousing/delivery etc.)



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