



Global Institute
of Logistics



China Momentum 中国动力

Deliver China 走进中国

Research Programme 2010-2011

Preliminary Findings March 2011

- ◆ **China 12th Five “Year Plan and Economy re-structuring**
- ◆ **Global Trade Imbalance and Rising of Chinese Consumer**
- ◆ **Port Authority becoming economic strategist**
- ◆ **Dah Chong Hong Holdings Limited as Chinese program partner**
- ◆ **Logistics Costs, Bulk Import and Collaborative Entry Model**
- ◆ **Need for a Global China Import Logistics Council (GCILC)**

A Summary Document

INTRODUCTION

As a think-tank, the Global Institute of Logistics (GIL) has been proactively involved in global dialogue; best practices research studies and discussions of global logistics related issues and challenges since its establishment in 2001.

In 2009, at the 4th Global Shipping Summit in Dalian, Mr. Kieran Ring, CEO of GIL met with Mr. Wei Jianguo, Secretary General of China Center for International Economic Exchanges. During a conversation about China's roll in the global economy and its increasing responsibilities, Mr. Wei expressed his view on the reconstruction of Chinese economy model to an "Import and Export equally weighted" sustainable future development strategy, in which China is going to focus on increase its importation to reduce trade surplus.



The Institute's China Chapter, chaired by Dr. Fu Yuning, who is also the Chairman of China Merchants Group, has viewed this incoming charge as a new opportunity both for China's future development and for Chinese logistics industry to strengthen its strategic position in the economy with a working program to meet this requirement.

Between 2007 and 2010, the global economy has suffered from a financially-lead recession, during the same period, China achieved on average above 10% year-on-year GDP growth, over taken Japan became the second biggest global economic power. China: the Arising Dragon is becoming more important to the world economy then ever before. The burgeoning Chinese middle class and increasing prosperity among the Chinese population is creating a new market for global shippers and brand owners who previously envisioned China solely as a supplier of goods.

Early research undertaken by the Global Institute of Logistics (GIL) on best practice for port cluster and governance revealed that the changing role of Port Authorities from Landlord to Economic Strategist, Port Authorities globally are facing increased challenges in terms of profitability and strengthening port performance. Through a series of Share-Learn-Benchmark (SLB) workshops by the PCGC committee, the Deliver China program was initiated base on the suggestion by PCGC members, which Port Authorities can proactively promoting international trade through their home country capabilities and global networks. In March, 2010, two members of the Institute's PCGC committee Shenzhen (China) Port Authority and Valencia (Spain) Port Authority signed "Sister-Port" agreement to promote cooperation in Commercial, Technical and Cultural between the two regions.

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Global Institute of Logistics

DELIVER CHINA

The global maritime logistics industry has boomed on the back of China's entry to the world economic trading system and its emergence as the factory of the world. For the most part, the logistics boom has been built on exports, with a large percentage of containers returning east from the west empty or at best filled with waste and other recyclable materials.

However, the prosperity created by this first export-led era of Chinese globalization has started to stimulate the emergence of a growing middle class who are developing a very healthy appetite for "western" products. This, combined with a weakening dollar and euro, has meant that for the first time in the modern era China imported more than it exported in the first full quarter of 2010. A new opportunity is therefore emerging for foreign companies to enter the Chinese market, with significant ramifications also for global container trade flows and balances.

With a population of 1.3 billion, China is the biggest country in the world. Its consumer market has the potential to be larger than that of North America and Western Europe combined. China has grown to become a strong force within the global market. This is largely because of its growing consumerism. There is a need to examine this paradigm shift from a conservative spending power into the consumerism spending culture.

Preliminary research at the GIL indicates that in just a few years, China will supersede the United States' overall consumption rates.

There are a number macroeconomic and socio economic factors in play that make the project particularly timely.

According to the Chinese Government's 12th Five Year Plan, China is transforming itself from the global factory for the production of low-end products to producing high value added products and from an exporting economy to a large consuming market. In order to respond to such a requirement, the GIL has started a new import orientated research project combining the power of logistics, distribution and market research.

Also in the macro economic cycle of globalisation some manufacturers are leaving China for the lower cost economies such as Vietnam, consequently factory units and associated warehousing are becoming vacant, these would be ideal for logistics operations for imported goods. Recent meetings and discussions between the GIL and its members in Shenzhen have quite clearly identified this as an area of opportunity.

While the Chinese consumers display a strong consideration and loyalty to local brands, they are also as keen in exploring foreign brands if the products are readily accessible within their purchasing channels. Therefore foreign companies entering the Chinese market have to allocate resources into establishing distribution channels which is expensive and risky. Alternatively they can form alliances with local companies to ensure that the products are within close proximity to consumers.

Also, there is a clear demand for a transformation programme for global ports to establish themselves as economic strategists.

Global China Import Logistics Council

In order to achieve the objective of this program, GIL and DCH feel the need to form a Global China Import Logistics Council (GCILC), which is made up of its Chinese members who have extensive knowledge, experience and capability in the Chinese market with Mr. Alex Chu as the founding Chairman. The Council will act as a platform for GIL's Chinese and Foreign members to network, share and deliver a successful model to facilitate foreign products to not only enter the Chinese market but also to become a continuing success.

“The Key”, detailed Chinese market research on how to “touch the heart” of the consumer, i.e. to understand the needs and wants of the consumer and how to fill in these gaps.

“The Bridge”, delivering Chinese logistics infrastructure and detailed knowledge on how logistics and distribution systems operate in China.

The report will also include exclusive case studies from the Council members both successful and unsuccessful, illustrating the “Dos” and “Don'ts” of entering the Chinese Market. This learning from previous experiences is invaluable for informing future efforts, ensuring cost efficient and saving time consuming errors.

MISSION AND VISION

Mission

The Global Institute of Logistics' Deliver China research program, through its Global China Import Council in partner shipment with DCH Logistics aims to build a transferable model based on “Best in Class” benchmarking that when implemented will allow global shippers and brand owners to successfully understand, entering and be continuing success in the Chinese market.

Vision

A new opportunity is emerging for foreign companies to enter the Chinese market. This development will have significant ramifications for global container trade flows and balances. Concurrently Port Authorities are continuing a paradigmatic shift away from the role of being purely landlords to that of becoming economic strategists assisted by their identification as both globally and locally focused and the potential that lies therein.

President Rafael Aznar of Valencia Port Authority in his capacity as Chair of GIL in Europe and Chair of PCGC has launched a campaign in Spain to introduce Spanish SME's through the Port to the China market.

Senor Aznar has announced that Valencia Ports Corporate University is to begin the campaign by researching which products from the Valencia Region may be best suited to Chinese market.

GIL will share the research strategy and parameters with other Deliver China Ports and encourage PCGC member Port Authorities to use ‘Deliver China’ as a program to change public perception of the role of the Port and to help their economies back to health stimulating demand for Port Services outbound which in turn reignites consumer demand for import.

EXPECTED OUTCOMES

Detailed research will be carried out Internationally, Strategy Workshops held to begin positioning and initial meetings held in Countries whom may wish to participate.

At this stage of the Deliver China program, DCH Logistics will under go a series of market research on behalf of the counties (horizontal) or products (vertical). And establish a correct method(s) for entering the Chinese market, which include taste, quality, price, marketing and logistics/distribution system. The report will be made available to the participate countries, members.

At the end of the process, the countries or verticals in which the Council believes has the potential to succeed in the Chinese market, DCH will develop tailored business plan with suggestions and pricing.

HOW TO PARTICIPATE

GCILC Member

The GCILC will comprise of at least 15 individuals, each in his or her own right a recognized thought leader within the logistics and marketing sphere. The Institute will select Council Members from a list of pre-qualified individuals that the Institute has collated over the first phase of Deliver China research. The Institute recognizes the importance of striking the right balance of expertise and geographical coverage in the makeup of the GCILC. Council membership will be by invitation only.

Participation in the GCILC will give individuals and their organization these benefits:

1. Gain access to the experience of other individuals
2. Obtain new ideas from various stakeholders and various countries
3. Opportunity to learn best practice in China market entry strategy through representation
4. Global benchmarking, best practice, knowledge sharing
5. A network for identifying common issues and problems, and developing solutions
6. Provides practitioners with an international forum for peer group networking, discussion and learning on latest developments in China market entry strategy.
7. The GCILC will discuss and initiate activities, which stimulate and sustain the successful business development of Deliver China program.

Advisory Board

GCILC will be further assisted by an honorary advisory board made up of representatives of the premier government, non-government organizations, leading academics, and experts drawn from the logistics and marketing industries. These individuals and organizations will endorse the work of the Committee, a vital component in having the work of the GCILC accepted and adopted. Advisory Board membership will be by invitation only.

PRELIMINARY FINDINGS

Cost of Logistics in China

According to China the National Development and Reform Commission figure, over the 11th Five Year Plan period (2006-2010) the logistics costs in GDP term in China reduced from 18.3% to 18% in five years and the new target set for the 12th FYP is to reduce the logistics cost to 17% by upgrading logistics and supply chain system in China.

Unarguably the Chinese government realised logistics efficiency as one of the key economical driver to achieve growth. However, the costs of logistics remain high in China, and almost double compare to developed nations, such as 9% approx in the USA.

The Institute through its research in China has identify this is one of the most important area to study and make necessary suggestions. Inefficient supply chain system will not only represent a great barrier for industry growth, but also increases commodity prices, i.e. negative effect on consumption market.

The Institute's founding Chairman Mr. Bob Delaney (1938-2004) has development a system to calculate logistics cost of a nation, which is now being used by the US to publish their yearly logistics costs study. GIL is willing to share this invaluable piece of intellectual property in pursue of best practice and compare China logistics costs with global best practices.

Bulk Container to import

In 2010, we have seen China overtaken Japan and became the world second largest economy. However, judging by average income per household, China is still a developing nation, as a result, price still play a great part in Chinese consumer's buying behaviour. In order to reduce imported good prices, the Institute through its research has found that all imported cargo should arrive into China, wherever possible, without processing, in terms of packaging, branding, and products final process. And take full advantage of Chinese import logistics agencies services offering to reduce costs, as well as use their local market knowledge to make imported cargo market ready.

Thanks to Deliver China's Chinese program partner DCH Holdings, the Institute was able to gain first hand information regarding their market approach, and their Xinhui logistics facility combined with nationwide distribution and marketing service, which DCH called it a "One Stop Solution" as a possible service solution to foreign products and brands.

Collaborative entry strategy

From the COBO study and Kerrygold's case study, the Institute understands that it is not only important for foreign companies to have high quality and good value for money to attract Chinese customers, but also, they would need to combine resources and crate synergy in raise awareness of the products origin culture among the Chinese public, which could be a great challenge for companies, especially SMEs to take on the task on its own.

Wherever possible, government agencies, such as trade commissions, port authorities should act as facilitators and provide assistances.