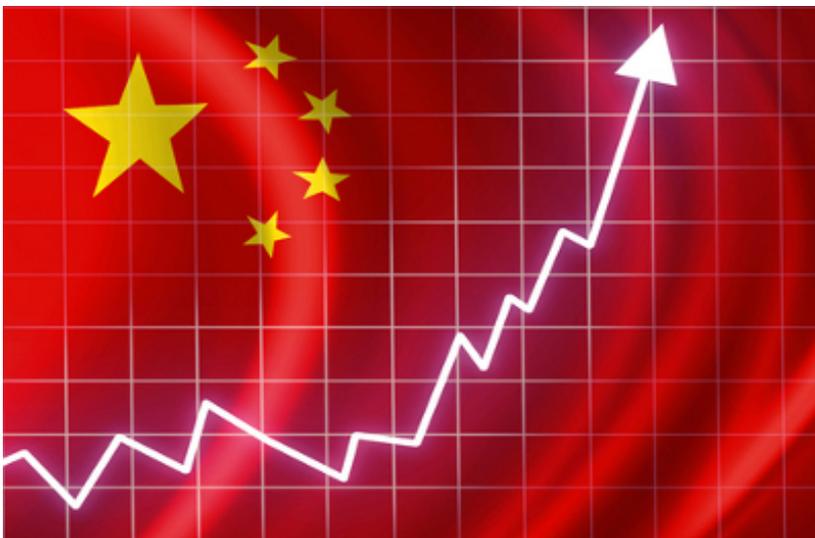


INCREASING ECONOMIC PROSPERITY FUELS DEMAND FOR LOGISTICS IN CHINA

Is China's impressive run of growth is coming to end? Recent headlines would suggest yes. But that's not the full story as Mark Millar, Logistics Executive Group's North Asia Director points out. Rapidly expanding domestic market, fuelled by consumer spending, increased e-commerce activities and underpinned by mass production for the global market is driving significant growth and maturity in China's logistics marketplace.



In continuing its impressive development path of recent decades China has become two economic markets that are interconnected and converging:

- its Global market which is driven by mass production for export to developed countries, and
- its Local market which revolves around rapidly expanding domestic consumption.

Multi-national companies first came to China to take advantage of abundant supply of low-cost labour and incentives to establish operations in Special Economic Zones. Nowadays they remain in China to sell products to Chinese consumers in the local market. Factories and shops are interconnected and converging – the workers have become the shoppers. One development has fuelled the other, increasing economic prosperity across the nation. The latest saying is that the foreign companies “came to China for the workers, now they stay in China for the shoppers”.

From the China logistics perspective, the emphasis is therefore no longer purely on transporting products from factories to the ocean ports on the eastern seaboard for export to the developed markets. Nowadays there is just as much emphasis on distributing goods

NEWS & EVENTS



Upcoming Events

Logisym 2015 - Singapore
March 4 - 5th, 2015

LOGISYM 2015 promises to be another highly unique event, with the focus being to provide a platform for mid to senior level shippers to hear from the leading solutions providers regarding the industry, and topics around the industry. The structure of the symposium is such that delegates will have more interactivity with supply chain peers, allowing the development of ideas and for delegates to acquire actionable take aways to present back at the office.

We are continuing the much requested format of topics that are not just about supply chain management, but address key issues around the supply chain. This year's tracks promise to be unique and provide invaluable insight in to what makes our industry tick.

www.logisym.org/2015

Logistics Executive Global News

Logistics Executive Group's Logistics Academy training to launch e-learning services

Logistics Executive Group's has announced that it will re-launch its Logistics Academy training services in mid-January as a full e-learning platform. The new platform presently being developed will migrate existing training programs to an online environment, whilst introducing new education products.

Focused on pathway learning, the users of e-learning will be able to undertake 13 different quick courses, two different accredited diplomas and specialist supply chain focused MBA's. For more information see:

www.logisticsexecutive.com

within and throughout the domestic China market in order to reach the increasingly prosperous consumers located all over this vast country.

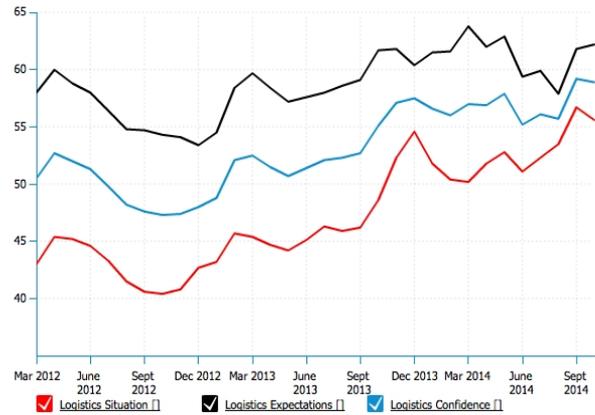
Logistics Sector

The logistics industry has been a key part of China’s relentless economic growth. The latest report from the China Federation of Logistics and Purchasing (CFLP) says that China’s logistics industry was worth RMB 177.3 trillion last year, up 9.8% from the previous year - mainly fuelled by the country imports of raw materials. The CFLP figures say that logistics costs increased by 11.4% to RMB 9.4 trillion, equivalent to 18% of gross domestic product.

Transportation accounted for over 52% of China’s logistics costs with 78% of all domestic cargo being moved by road. Road transport companies account for the largest share of the logistics market in China with 790,000 road hauliers, but the top 20 trucking companies share less than 2% of the market.

As reported by Asia Maritime, China’s logistics sector remains hugely complex, brutally competitive and massively fragmented - even the top 50 logistics players, led by Cosco, Sinotrans & CSC Holdings and China Shipping, with combined sales revenues of more than RMB 2 billion, have less than 2% of the total market.

Li & Fung’s latest China Logistics report says that high road tolls, stringent regulations and increased taxes are some of the issues facing logistics companies in China, with road tolls now representing 33% of total transportation costs. “Excessive highway tolls, as well as price hikes of fuel and labour, have eaten into many logistics enterprises’ profits,” the report says.



Source: TI

October’s Stifel Logistics Confidence Index results showed continued positive momentum in airfreight volumes, while sea freight turned down sequentially.
Source: Ti

Continuing economic development in both production and consumption sectors brings new challenges and opportunities for the logistics industry. Although logistics in China is the backbone of the domestic supply chain, the industry itself remains complex, inefficient and disjointed.

Third party logistics (3PL) penetration – where transportation and warehousing activities are outsourced to a third party - is around 20% in China. Contrast that to the USA where the penetration rate is around 45% and Western Europe where it’s almost 50%, whilst in Japan outsourcing reaches 80%.

The low 3PL penetration rate in China is a function of it being early days for outsourcing – vertical integration is the traditional approach of Chinese companies. It also indicates the relative immaturity of the logistics sector - reflecting the developing market environment.

TRAINING AND STAFF PERFORMANCE

Logistics Executive in conjunction with partners is committed to providing the most relevant and cutting-edge Supply Chain, Logistics & Executive development to your employees upgrading their future skills and helping to retrain. Our short and long-term courses include industry specific seminars, tier one accredited courses, and on-site customised training developed for Supply Chain and Logistics employers. Logistics Executive Training Academy provides Quality Training and Development for companies and organisations that meet their individual needs. We provide training and assessment services that are relevant, flexible and of the highest quality.



More Information on Logistics Executive Academy Training and Development Programs

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Whilst we are seeing improvements in the quality of warehousing infrastructure – largely driven by property developers, the increasing presence of multi nationals and related investments – the domestic transportation sector remains massively fragmented and hugely challenging.

Providing transportation to service nationwide domestic distribution networks typically involves numerous trucking sub contractors – with the majority of them being owner-operators with just one or two trucks – rarely of good quality and with little, if any, modern technology.

International logistics service providers are providing nationwide transportation solutions through tightly managed networks of pre-qualified sub-contractors, combined with adoption and deployment of technology for electronic track and trace.

e-Commerce Sector experiencing exponential growth

China’s direct-to-consumer e-commerce sales grew to USD 305.5 billion in 2013, registering a forty two per cent increase over the 2012 total of USD 214.8 billion, according to iResearch.

Driven by an upwardly mobile middle class with a taste for Western brands coupled with massively expanding rates of internet access, China’s e-commerce market is experiencing exponential growth that McKinsey forecast could generate online sales of USD 650 billion by 2020

And research from Alibaba reported that consumers in remote areas with no large shopping malls and consumers in small cities spend a larger proportion of their disposable income via e-commerce than those in the large cities where brand-name stores are plentiful.

This massive growth in online sales in turn drives the need for comprehensive nationwide B2B and B2C logistics networks, stretching China’s express logistics sector capabilities like never before.

China’s express delivery industry has over eight thousand companies, some offering nationwide deliveries and many others offering a one-man delivery service to a city area. In total, the express delivery providers delivered 9 billion pieces in 2013, up 61.6 percent year-on-year.

In their recent report, Deloitte project that by 2015 this will become a RMB 280 billion industry, with average annual compound growth rate of 39.4 percent. Their report said the total operating income generated by China’s express enterprises reached RMB 144.22 billion in 2013, up 36.6 percent year-on-year.

By business volume, the market was dominated by private express companies, which accounted for 78.9 percent of market share in 2013, versus 19.9 percent for state-owned companies and 1.2 percent for foreign enterprises. With their respective strengths and weaknesses, this broad mix of service providers is complementing each other to support the healthy growth of the express market.

In such a crowded market, the fierce competition amongst express delivery service providers is resulting in volumes growing faster than revenues, reflecting price pressure that is reducing revenue per piece. This is impacting profitability for the service providers with expectations amongst market watchers of some impending consolidation.



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Conclusion

As China’s economy continues to develop, the logistics sector will mature and outsourcing levels increase. The increasing presence of multinational companies in the domestic market accelerates the deployment of international best practices in logistics, embracing multi modal transportation, structured distribution networks and efficient supply chain ecosystems.

The China Logistics sector can expect continuing exciting developments, embracing both challenges and opportunities including the rapidly growing sector of e-commerce and related logistics solutions.

Footnote:

Logistics Executive Group Corporate Advisory and Consulting Group is a leading boutique provider of performance and outcome driven consulting services across Business Performance, Supply Chain and Operations and Human Capital.

Logistics Executive Corporate Advisory Specialists engage with Companies that are seeking to venture into new International Trade Markets or looking to redesign their current Supply Chain and business operations.

Our Corporate Advisory Team consists of highly specialized Business Leaders in;

- Global Trade Investment
- Free Trade Zones, FTA’s & INCO Terms
- Operations & SCM Management
- Logistics
- Interim Management & specialised Project resources
- Mergers & Acquisitions

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Mark Millar leverages 25 years global business experience to provide value for clients with informed and independent perspectives on their supply chain strategies in Asia. His series of ‘Asia Supply Chain Insights’ corporate briefings, consultations and seminars help companies navigate the complex landscapes in China and ASEAN, improve the efficiency of their supply chain ecosystems and make better informed business decisions.

Acknowledged as an engaging and energetic presenter, clients have engaged Mark as Speaker, Moderator, MC or Conference Chairman at over 350 events in more than 20 countries. Mark is a Visiting Lecturer at Hong Kong Polytechnic University and serves on the advisory board of several leading organisations. His industry contributions have been recognised with a number of accolades, including

being named in the “Who’s Who of Power Players in Supply Chain Management in China”, the “Pro’s-to-Know Thought Leaders in Supply Chain” and as “One of the most Progressive People in World Logistics”.

London based business book publisher, Kogan Page have commissioned Mark to write the book “Global Supply Chain Ecosystems”, due for publication in 2015. **EMAIL: MarkM@LogisticsExecutive.com**