

Integrated logistics in China - overcoming the challenges

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While the Chinese market is not new to global 3PLs (third party logistics providers), providing shippers with integrated contract logistics and value-added services within that country remains a challenge even for those with the most sophisticated networks and resources. However, there are also opportunities for logistics providers able to overcome the hurdles.

A case in point is the expansion of US-headquartered Penske Logistics in China. The 3PL recently took on two major outsourcing contracts in that country on behalf of two multinational manufacturers whose demanding logistical requirements and service expectations were similar to those in the more developed markets in which they operate, such as North America or Europe. Penske's customers for those logistics contracts in China were

Continental AG, a Germany-headquartered manufacturer of tyres and other automotive products, and Steelcase, a US-headquartered producer of office furniture.

According to Penske Logistics, a combination of factors peculiar to the large – and in many respects underdeveloped – Chinese market contribute to low efficiency and quality in the level of logistics services that shippers receive. The net result is a low percentage of goods deliveries being effected on time, high damage rates and low levels of shipment visibility in the supply chain. And to emphasise the lack of efficiency, logistics is an expensive business in China, accounting for, on average, 18.1% of the country's GDP, compared with 10% in developed countries.

Penske Logistics and other 3PLs and freight forwarders operating in China have pointed to four main issues which need addressing, or to be improved, before that situation changes significantly:

- The fragmented state of the Chinese logistics market. There are few national logistics providers and the domestic logistics industry is dominated by a large number of regional or locally-based companies. Consequently, most operators lack economies of scale and are confined to a single segment of the supply chain.
- Lack of expertise and technology. According to Penske Logistics, in China there is a "shortage of experienced logistics professionals; lack of cross-segment management and service integration capabilities; limited IT capability, which is not valued by customers; and limited integration capability".
- Underdeveloped infrastructure. While China's coastal areas are seeing substantial investment in infrastructure, particularly at the ports, inland and western areas of the country lag behind. The road and rail networks, airports and inland waterways all need to be upgraded, although major improvements have been seen recently, with multimodal and national highway networks expanding rapidly.
- Regulatory constraints. According to some 3PL executives, the legacy of China's planned economy, which affects shipments moving domestically across the country, is an uneven enforcement of regulations, as well as regional differences in interpretation of the regulations.

Joe Gallick, Penske Logistics' Senior Vice President for Global Sales (pictured), explained to *Transport Intelligence* that the poor quality of logistics in China impacted on both shippers and their

service providers in several ways, including damage and loss of goods, high landed costs and lost sales. He added that there were also barriers to improvement of the situation (caused by the four main issues listed above), such as a pre-occupation by local logistics providers with the price rather than 'value' of the service; lack of a total solution focus from service providers; a focus on the short, rather than the medium or long term; and a lax attitude, or non-compliance, with respect to regulations.

Clearly the expansion of global 3PLs in China, which have considerably more resources and a different mindset from many local players, is improving this situation for shippers in terms of service but the low or non-asset-owning logistics providers are dependent on the quality of local transport providers. Furthermore, according to another global 3PL executive, local providers generally fare better with the regulatory challenges, as they have stronger relationships with Government officials. That helps considerably with respect to knowing how the regulations work, at least on a local level, to facilitate the flow of goods within China.

Penske Logistics experienced operational challenges in its six-month project on behalf of Steelcase, which involved the 3PL delivering and installing a wide range of furniture and other office equipment for several floors in a large, newly-built office block in Shanghai. Penske Logistics arranged the multimodal (truck and inland waterway) transport of goods to a temporary storage area established at the office block construction site, received from many suppliers throughout China. That involved Penske Logistics contracting with multiple trucking and multimodal transport companies and arranging deliveries in accordance with an installation schedule that was subject to frequent changes. Those changes occurred because of amendments in the construction plans of the building itself, creating further challenges to the operation.

Gallick said that the client's requirements were all met, with the offices being fully kitted out on time. That was despite the implementation being hindered – and a lot of extra work created – by the fact that some of the office equipment moved on trucks to the storage facility in Shanghai arrived in a damaged state. While the poor transport infrastructure, described previously, may have contributed to that situation, the main reason cited was the failure by the trucking company employees to follow the written operational (including goods loading) procedures provided to them by Penske Logistics.

Despite the challenges, Penske Logistics has recently expanded its contract logistics capabilities in China and now provides a range of value-added services in the country, focusing its operations on Shanghai, Beijing and the north-eastern Chinese city of Shenyang. That has enabled the 3PL to implement a nationwide tyre distribution network in China on behalf of Continental AG. That contract marked the German manufacturer's entry into the Chinese market and the design and implementation of the whole operation was outsourced to Penske Logistics. As mentioned above, Continental's requirements were demanding. The company had an aggressive implementation timeline for the network and its strategy involved the simultaneous launch of high volume tyre distribution in all Chinese provinces.

Penske Logistics operates a custom-designed distribution facility, with a high ceiling to accommodate the substantial volumes of tyres being warehoused and a portable storage/racking system. The warehouse management IT system is integrated with Continental's global inventory control system and value-added services provided at the facility include claims management for defective goods, reverse logistics, labelling and production date management/co-ordination.

Gallick explained that the relationship between the two companies focused initially on distribution centre operations but it had subsequently developed into a partnership. He added: "Penske's role has been expanded to co-ordinate international and domestic transportation, with the distribution centre becoming the customer's China control centre for supply chain co-ordination."

Other global 3PLs are also seeing opportunities to provide increasingly sophisticated logistics services in China, despite the challenges described above. Those will be covered, with presentations by senior executives from Penske Logistics, Rhenus Logistics and other logistics providers, at Transport Intelligence Ltd's conference, 'Global Distribution Strategies - Asia Pacific 2008', being held at the Langham Place Hotel, Hong Kong, December 2-4, 2008. See www.ticonferences.com for further details.

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