

What's shaping the global distribution market?

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A decade of systemic change

The last decade has seen systemic changes in the global trading environment. Political, economic, social and technological factors have facilitated major changes in the way in which multinational manufacturers supply global consumer markets. This has had an inevitable impact on regional and worldwide traffic flows and with it, the location of distribution platforms.

In Europe the logistics economy was transformed by the Single European Market in the early 1990s. More latterly the geographic centre of Europe has shifted eastwards with the accession of the Central and Eastern European economies. Russia and Turkey will prove to be the developing markets of the next decade.

This expansion will have major implications for the way in which global manufacturers seek to supply their European markets. It is no longer as easy as it was five years ago to use a single European Distribution Centre to reach all parts of the European Union. Instead it seems that companies are employing a tiered approach to the challenge, still utilising a single distribution centre, usually located in the Benelux region, but with regional 'sub-hubs'. This will see more platforms being constructed in Eastern Europe (Poland is most popular) and Southern Europe (for instance on the Spanish/French border). However the major gateways to Europe will remain the Northern European ports such as [Rotterdam](#), Antwerp and Hamburg although a switch of volumes to ports in the Balkans and Black Sea is occurring to some extent.

'Near sourcing' key to Mexico's growth

Across the Atlantic, the North America Free Trade Agreement (NAFTA) has had a major impact on the flows of goods. An increasing number of manufacturers are choosing to supply the giant US consumer markets from facilities in Mexico, where costs are substantially lower. The trade flows are certainly not one way. For example, in the automotive sector many production plants in Mexico source components directly from the US, as is the case for Honda de Mexico (HDM) which uses [Ceva Logistics](#) to consolidate via milk runs with Midwest parts suppliers which are then moved intermodally to its plant at El Salto near Guadalajara.

Some of the biggest 'gateway' logistics platforms are located in close proximity to the West Coast ports. The demand for vast quantities of goods imported by sea from Asia Pacific, mostly from China, has led to major congestion problems in the region which threatened at one time to overwhelm infrastructure capacity. Changes in working practices and new investment have enabled the ports to just about keep pace with

demand, but challenges remain. At the same time there has been a trend towards shipping lines adopting an 'all water' approach, bypassing these Ports and calling via the Panama Canal at east coast ports such as Charleston.

China's development - the defining trend?

Perhaps the defining trend of the decade has been the development of China as the power house of global industry. By acceding to the World Trade Organisation, the Chinese government committed to root and branch reform of its economy which has allowed it to grow to a position of global importance. Development of logistics infrastructure has been at its most expansive in and around Shanghai (Yangtze River Delta), Shenzhen and Guangzhou (Pearl River Delta) as well as the Beijing-Tianjin-Bohai Bay Triangle.

The economic focus on the coastal regions has meant that competition for real estate and human resources is vigorous. This has resulted in cost pressures which China has started to 'export' to the major consumer markets of USA and Europe and consequently manufacturers are now re-examining their supply chains.

Efforts have been made by the Chinese government to relieve these pressures by extending transport infrastructure towards the less developed West of the country. This has only been partially successful, as global manufacturers have instead looked towards more accessible, and lower cost markets such as Vietnam.

Shifting geographies drive growth of 'gateway' ports

The shifting geographies of distribution networks have had a major impact on the growth of key transport nodes. Most manufactured goods entering the developed markets of Europe or North America are shipped in containers through ports. This has led to the advent of 'port-centric logistics', leading to the increased importance of major hubs such as Port of Los Angeles in the USA or Rotterdam and Antwerp in Europe. These ports have developed extensive road and rail links with the economic heartlands within the regions they serve. Such development has not always been straightforward. Infrastructure has struggled to keep up with demand, leading to chronic congestion and delays, disastrous to supply chains which increasingly depend on reliability, visibility and timeliness.

A similar trend has developed for air cargo and air express. The integrators have invested huge amounts in developing strategically located air hubs which can cope with volume growth in some markets of up to 50% a year.

Globalisation not the only dynamic

Globalisation is not the only dynamic at work in changing patterns of distribution. Modal choice has become a critical issue due to increasing levels of congestion in



developed markets and also due to environmental concerns. This latter point should not be overplayed. Politicians have spent many years encouraging a modal shift from road back to rail, or indeed, short sea shipping. This has had little success in influencing supply chain strategies which have been built on reducing inventory and time to market: far more powerful factors than political rhetoric.

However, especially in regards to the rail industry, legislators are finding that deregulation of markets is more effective than subsidy and well-meaning platitudes. A nascent private sector in the European rail freight industry has facilitated the growth in intermodal volumes, stabilising rail's modal share. Investment in intermodal hubs, such as Duisport in Germany, is now growing at a rapid pace, as inland distribution platforms bypass increasingly congested roads.

These are just some of the issues which will be discussed at Global Distribution Strategies Conference 2008 by an expert panel of senior logistics and supply chain executives as well as Ti's own analysts from China, India, US and Europe. For more details on how to sponsor or attend as a delegate go to www.ticonferences.com or contact Sarah Smith ssmith@transportintelligence.com on +44 (0)1666 511880.

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