

China: Logistics & Distribution Industry

Overview of Emerging Markets



INTRODUCTION

This report provides an overview of China's logistics industry, with closer look at three key industries: pharmaceuticals, chemical/petrochemical, and retail. (See Glossary at page 22 for key terms used).

EXECUTIVE SUMMARY

China Logistics Industry

Market overview. China's logistics market grew at 13% annually in the last few years to reach a value of \$490¹ billion in 2006. However, less than 20% of the market is provided by 3PLs (third-party logistics providers), which are characterized by low service levels and poor technology. The 3PL landscape is very fragmented with about 18,000 players and with virtually no company having a national network.

Regulatory environment. Over-regulation and local protectionism at the provincial and local level has hindered the development of nationwide transport networks. The licensing process for foreign companies is also complicated. However, there is increasing government attention in this issue and the 11th Five Year Plan promises to improve regulations and introduce more adequate industry standards.



¹ Dollar values are calculated using USD-RMB exchange rate of 7.75

Key market dynamics. There are six key trends in the logistics sector: 1) continued growth in logistics market; 2) increased outsourcing to 3PLs; 3) increasing foreign presence; 4) consolidation and increasing quality of domestic 3PLs; 5) de-regulation and standardization and 6) greater use of technology

Key opportunities and market entry options. Opportunities for foreign companies exist in several areas such as specialist 3PLs, supply chain management services, warehousing, software, and technology products. Different market entry options are possible and companies should carefully evaluate pros and cons of each option before making a decision.



Focus on three key industries

Pharmaceuticals. Pharmaceutical logistics face issues of poor product handling, fragmentation, traceability, cross-selling, and channel loading. However, the industry is gradually moving towards greater consolidation and improvement in wholesalers' quality, and consequently in logistics practices. A notable exception is a handful of key distributors able to provide nation-wide coverage and virtually full control on the supply chain management on behalf of their customers.

Chemicals/Petrochemicals. In the chemicals industry, the main issues are that of Health, Safety and Environment (HSE), which were largely ignored in the past. However, with multinationals leading the way, there is greater focus on safe transportation of hazardous chemicals. There is also increasing regulations ensuring that chemicals are properly handled and transported.

Retail. Logistics in the retail segment is characterized by a low level of development with lack of regulations especially in ensuring food safety along the supply chain. There is very limited independent "cold chain" in China. Cost remains one of the biggest barriers to the improvement of logistics in this sector.