The Study on Development Strategy of Logistics Services Industry in China

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Abstract. With the rapid growth of logistics, it is important to gain further insight into the strategic benefits of logistics services. The study examines the state of Chinese logistics service industry based on constructing a classification framework for logistics services studies. Finally, it explores key issues and suggests a research agenda for the future. This study provides a theoretical foundation for academics and also practical guidelines for logistics services industry

Introduction

Today, logistics services industry plays a critical role in the supply chains of their customers. They are increasingly viewed as strategic partners who can play a pivotal role in optimizing the supply chain and thereby providing sustained competitive advantage. Meanwhile, logistics is widely recognized as an important ingredient for a country to succeed in the globalization era. The development level of the logistics industry in a country reflects its national power and overall competitiveness.

Literature Review

Over the last decade and a half a large number of studies have been conducted in the field of outsourcing of logistics services and the field is growing. [1] These studies have focused on a range of issues regarding logistics services conducted in different parts of the world. This body of literature can be broadly analyzed from three perspectives as follows:

A. Users’ Perspective

A vast majority of the logistics services studies have been conducted from the users’ perspective. The first comprehensive survey of the extent of use of logistics services was conducted by Lieb[2]. This study surveyed large American manufacturers to identify the extent to which companies outsource their logistics services; the specific services used; the benefits experienced from outsourcing logistics services; the impact of logistics services on logistics costs; customer satisfaction; and the trends in using logistics services over time and across nations. Sohal[3] also conducted similar studies in the context of Australia and Singapore respectively. They found that most users of logistics services are satisfied with their providers and are likely to increase their usage of contact logistics in the future. Sahay and Mohan [4] noted it is the most important factors for Indian firms to cost reduction and improve customer services. These studies focus on the developing economies which investigated the extent and usage of logistics services from the users’ perspective.

B. Providers’ Perspective

Relatively little attention has been given to the service providers’ perspective. Larson and Gammelgaard [5] studied Danish logistics firms including air, rail, and truck transportation providers, warehousing companies, freight forwarders and others logistics services providers and concluded that the Danish as logistics services providers tend to be niche firms, focusing on the internal market and providing services mainly to the food and beverage industry. Sum and Teo [6] investigated different strategic postures of logistics services providers in Singapore. By analyzing technological issues, and operations objectives of the providers, Sum and Teo proposed plans for
different strategic types. These findings provided valuable insights for logistics services providers, educators and government policy makers.

C. Users’- Providers’ Perspective

Only a limited number of studies examined outsourcing logistics services from both users’ and providers’ perspective simultaneously. Daugherty et al. [7] investigated the US manufacturers’ perceptions regarding their international logistics service providers' capabilities and found that the suppliers had performed well in the areas of responsiveness and flexibility. Murphy and Poist found a high degree of agreement between users and providers in terms of what they saw to be key factors in successful logistics services relationships, and each party’s satisfaction with existing logistics services relationships. These issues point to the fact that users and providers are required to work closely and tailor services when possible.

The Development Process

A. Current Situation

1) Increasing demand for Chinese logistics services resulting from rapid economic growth

Chinese logistics industry has been growing fast since its accession to the World Trade Organization (WTO) in 2001. [8] This is particularly true for third-party logistics (3PL). However, despite the rapid development of the logistics industry in China, it is still fledgling and muddy in comparison with other developed nations. There are still many obstacles that China has to overcome when developing its modern logistics industry. Nevertheless, China’s rapid economic growth will provide huge room for further development and market potential for its logistics industry.

China’s economy registered an average growth rate of 7-8% throughout the 1990s. The growth is expected to persist as China’s economy continues to become more integrated with the global economy, with GDP grew by 9.5% in 2004 and is envisaged to grow 8.5% this year. With the fast development of the national economy, the demand for logistics services is growing significantly in China and boosts the sustainable and rapid development of the logistics industry. The total logistics value1 reached 38,382.9 billion yuan (US$ 4,641 billion) in 2004, grew by 29.9% year-on year (yoy). This was the highest growth rate recorded in the past 9 years, and was significantly higher than the GDP growth rate in the same period. China has entered the stage of accelerating industrialization. This has provided strong impetus for the growth of the logistics industry. Statistics revealed that industrial products accounted for 84.6% of the total logistics value in 2004, up from 79.3% in 1991-95 and 82.9% in 1995-2000. As China continues to develop into a global manufacturing powerhouse, new demand for logistics services will be generated. [9]

2) The logistics service industry is playing a more important role in economic development

The coefficient of logistics demand was 2.8 in 2004, which was significantly higher than the average coefficient of 1.6 and 1.7 in 1991-95 and 1996-2000 respectively. The coefficient of logistics demand is the total logistics value as a proportion of GDP. It reflects the service demand factor of logistics per unit of GDP. The rising coefficient means that economic growth in China has been generating new demand for logistics services. Meanwhile, the logistics industry is playing an important role in the country’s economic development.

B. New Government Policies

In order to accelerate the development of the Chinese logistics industry, the National Development and Reform Commission, the Ministry of Commerce and other ministries and commissions jointly released a communiqué, “Notice on promoting the development of Chinese modern logistics” on 5 August 2004. The communiqué outlined the policy measures for supporting the development of modern logistics industry. It covers various areas such as administration, management, taxation, financing and market opening, etc. Some of the major policy initiatives are presented below.

1) Standardizing registration and approval procedures

The State Administration for Industry and Commerce will cancel all items requiring pre-approval in processing registration of logistics enterprises, except for state laws, administrative rules and regulations formulated by the State Council.
2) Adjusting administrative management items

The requirement for administrative approvals of domestic railway freight forwarding agencies, marine freight forwarding agencies and linked transport agencies will be cancelled. The requirement for approval on the qualifications of international freight forwarding agencies will also be cancelled. Meanwhile, subsequent supervision and management will be strengthened.

3) Perfecting taxation management in logistics enterprises

Concrete procedures for calculating the tax will be formulated by the State Administration of Taxation. On income tax, all logistics enterprises are allowed to pay a unified income tax for all its branches and subsidiaries.

4) Rectifying and regulating market order

A mechanism for competition is introduced for the purpose of creating a unified, fair and regulated level playing field for all logistics enterprises. To this end, a number of policy commitments are spelt out to further enhance the development of the industry, such as encouraging the use of IT in the logistics areas, speeding up the formation of logistics standardization and statistical index system, improving the standards of the logistics personnel, etc. Meanwhile, the Ministry of Commerce and the National Development and Reform Commission will take the lead in establishing a mechanism for coordinating modern logistics services.

5) Strengthening the management of administrative charges

All administrative charges, government funds and penalty items are cleared in a comprehensive way. Charges not in accordance with state regulations are cancelled. Road toll stations will be checked and adjusted; those that do not comply with state regulations will be banned from collecting tolls and will be dismantled. Illegal inspection, collection and penalties are prohibited; those who set up illegal toll stations or introduce charges without approval will be severely punished.

6) Promoting the opening up of the logistics market

According to WTO commitments, Chinese logistics industry will gradually be opened up to foreign participation. Foreign logistics enterprises of substantial scale are encouraged to set up logistics businesses in China. With China further opening up to the outside world, international cooperation and exchange in the logistics industry will be strengthened, which will help China’s logistics industry synchronize with the world’s mechanism. Besides, some other regulations have been promulgated and implemented by the Chinese government to further enhance the modernization process.

C. infrastructural Development

1) Promoting the development of inter-modal transportation

According to the CFLP, the total fixed asset investments in the logistics industry in 2004 reached 728.3 billion yuan (US$ 88 billion), grew by 24.3% yoy. Of which, total investments in transportation amounted to 603.9 billion yuan (US$ 73 billion), accounting for 82% of the total investments. Since most investments in the transportation sector are made by the government, this figure indicates that the Chinese government has been placing huge emphasis in developing the transportation sector. In fact, the central government has made strong efforts to step up the construction of infrastructure in the post-WTO era. For example, it laid out an ambitious transport infrastructure plan in its 10th Five-year Plan (2001-05), which sets aside massive spending on infrastructure development, from roads to ports, in different provinces and regions. Furthermore, the Communications Minister has recently unveiled that China will invest 2 trillion yuan (US$241.9 billion) in building 34 highways with a total length of 85,000 kilometers in 30 years. The network will comprise 7 links radiating from Beijing, 9 running north-south and 18 east-wests. The network will connect all provincial cities – large cities with a population over 500,000 and medium sized cities of over 200,000 people, linking more than 1 billion people. It is expected that after its completion, the network will be connected to 50 main railway hubs, 67 regional airports and 50 ports in China. This will largely enhance the inter-modal transport service within the Mainland and also reduce the logistics cost for the logistics enterprises.

2) Speeding up the construction of logistics parks and distribution centers
In recent years, many provinces and cities in China have adopted relevant policies and measures to promote the development of logistics industry. For example, building logistics parks are on the drawing boards of many provinces and cities including Guangzhou, Shenzhen, Beijing, Shanghai, Tianjin, Wuhan, Chongqing and Dalian. The major functions of these logistics parks include: arranging freight transportation and management, providing intermodal services, providing inventory storage and warehousing services, and acting as transit depots. Some of these logistics parks are fully computerized, with networks linking every player in the parks, as well as linking with other logistics parks nationwide. This enables them to provide agile logistics services to the end users.

D. The Prevalence of Outsourcing Activities

The open door policy has gradually opening up the Chinese market to both domestic and foreign enterprises. Together with the reform of the State-owned enterprises, the overall level of marketization increased from 4.4% in 1975-1979 to 65% in 2002-2004. The growing marketization and internationalization provides a level-playing field for domestic and foreign enterprises. Market competition will intensify. In order to survive, enterprises have to improve their efficiencies and competitiveness by concentrating on their core competences and outsourcing some or part of their logistics functions. This trend of marketization and internationalization will continue as China has committed to further open up its market to foreigners after WTO entry. In this regard, there will be huge demand for logistics services. Moreover, given the enormous potential of China’s market, both domestic and foreign enterprises have been actively consolidating their position in order to secure market shares within the shortest possible time. Many foreign logistics service providers have established joint-ventures (JVs) with domestic enterprises or wholly foreign owned enterprises (WFOE) in China.

1) The Emergence of 4PL and 5PL

Nowadays in China, owing to the rising customer demand and keen market competition, the logistics systems are often deemed unable to respond promptly to the changing market requirements. In response, many logistics enterprises strive for providing value-added services to their clients and thus start to offer 4PL and 5PL services.

A 4PL service provider is a logistics integrator or a one point contact for the manufacturer’s logistics outsourcing requirement. It oversees all logistics activities along the supply chain of its clients. With its expertise in information technology (IT) and logistics operation, it offers high value added consulting and advisory services to enterprises regarding how to streamline or even restructure the logistics process from the sourcing stage to the final stage of sales. On the other hand, a 5PL service provider performs similar functions as a 4PL service provider, but on top of that, it also offers electronic logistics solutions for the entire supply chain. It is thus also referred to as e-logistics.

Development Strategies

A. Development of Competitive Strategy

Some studies have revealed that most of Chinese logistics providers are taking pure cost strategy. Most of them focus on transportation and warehousing functions but lack value-added services and logistics information management. The rate setting ranks highly in their priority while the importance of lead-time performance is largely ignored. The implication is that the local providers must review their current competitive strategy and decide if they should continue to compete in the low cost segment. If they pursue better business performance and want to improve their competitiveness, they should move away from current pure cost strategy and to offering more comprehensive and value-added logistics services. Furthermore, customer service should be improved in terms of better delivery, higher quality service and meeting special customer needs. These are basic requirements of customers and factors in determining successful logistics relationships. Chinese logistics providers should not focus only on rate setting but improve the performance in terms of the lead-time, reliability, consistency etc.

B. Development of Strategic Alliances
The establishment of strategic alliance is a suitable choice for some Chinese logistics service providers. With greater competition and higher-level requirements for logistics operation, Local logistics firms are required to provide more comprehensive service activities, and cover broader business market with high-level business performance. However, the internal activities and acquisitions could be hindered by the limited capital capability, which is the current status of many local firms. Under this situation, the establishment of strategic alliances and going for long-term strategic benefits for both partners become an appropriate choice. [10]

C. Development of Business Intelligence

Currently the logistics services are in a state of transition. Players are adding more and more services to their portfolio as customers demand more integrated solutions. Logistics services are viewed as strategic partners who can optimize the supply chain, reduce the cycle time, and provide unprecedented customer responsiveness. To squeeze out the last drop of inefficiency, the ability to analyze all the activities in the logistics process is vital. Business Intelligence can help logistics services in two aspects:

1) Improve Organizational Support Functions

Business Intelligence can significantly improve organizational support functions like HR and financial management by providing an integrated view of these functions and supporting their specific decision making requirements. It can improve the effectiveness of these services by in-depth analysis and reports on various functions involved in these services. According to this, companies had to concentrate their resource on the key functions, such as innovation, manufacturing and marketing, to create the core competitiveness of them.

2) Provide Information Technology

With the help of Business Intelligence, logistics services can provide their clients with analysis and reports specific to their supply chain. These can significantly help the customers increase their responsiveness and time to market. With the emergence of Internet, 3PLs can now reengineer the customer’s supply chain by providing online collaboration and synchronization via the web. Business Intelligence tools can leverage the data created by the existing IT infrastructure to provide valuable additional services to the customers.

Conclusion

In conclusion, this study in China is at an exciting stage. In many ways it has followed a typical pattern of development, beginning with relatively simple issues and adopting an essentially descriptive approach. Now that a substantial body of literature exists in the area, it is timely to extend the methods employed and the issues addressed to deal with network phenomena and to progress with more normative considerations. Logistics services industry is a sector undergoing constant change. Therefore, it is an excellent opportunity to use logistics as a vehicle for the generation of more generic insights into the dynamic behavior of inter-organisational relationships.

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References


