



FIRST AUTOLOGISTICS ASIA CONFERENCE

Nearly 130 logistics executives gathered in Shanghai in May for the first Autologistics Asia conference.

Delegates heard from carmakers, Tier 1 suppliers and logistics service providers about the rapid development of the automotive industry in China and the ways in which they are developing their strategies to meet its needs.

While Guan Xi relationships remain important for dealing in China, executives stressed the need for improvements in process, people and infrastructure to create more advanced supply networks and

lower logistics costs.

Carmakers represented at Autologistics Asia 2004 included Shanghai Volkswagen, Audi, Ford, Mercedes-Benz China, PSA Peugeot Citroën, Beijing Jeep and First Automotive Works. Delphi, Visteon, Yanfeng Visteon, Benteler Automotive, Robert Bosch and ArvinMeritor were among the Tier 1 suppliers at the event.

The conference, produced by *Automotive Logistics* magazine, was supported by global sponsor G-Log, gold sponsors Menlo Worldwide and TNT Logistics, and silver sponsors

APL Logistics, Schenker and World Courier.

Details on Autologistics Asia

2005 will be posted later this year.

www.autologisticsasia.com



Delegates at the Autologistics Asia 2004 conference heard about the rapid development of the automotive industry in China

CHINA NEEDS TO IMPLEMENT FURTHER OPTIMIZATION

The automotive market in China is “unstoppable”, according to Ken McCall, CEO of TNT Asia, Middle East and Africa, but logistics operations in the country need to be optimized to help the industry counter extreme cost pressure and improve efficiency. McCall said that the increasing wealth of China’s population, coupled with favorable economic conditions, such as lower car tax and the availability of financing to buy cars, would

increase demand for cars.

“We estimate the size of China’s automotive market today, which includes vehicle sales and Tier 1 components, to be approximately €100bn (\$120bn),” said McCall. “Currently exports and aftermarket sales represent only a small share of that market and logistics costs vary between 3.4-5.4%. Vehicle distribution is likely to be at the higher end of that range and inbound at the lower end.

“As opposed to the more developed markets like Japan, the US and Europe, the automotive market here is dominated by finished vehicle distribution, which accounts for about half of the total automotive logistics cost. By 2010 we expect the automotive market to have grown to €274bn (\$329bn) and logistics costs as a percentage reduced to 3-4.5% of sales. Logistics costs are also expected to decrease as supply chains become more efficient, driven primarily by the fierce price competition that will take place,” he said.

But McCall added that development was being hindered by a lack of optimization. “Firstly, in inbound logistics, there is limited integration between component suppliers and OEMs, which leads to high inbound and plant inventory levels and inflexibility in orders and delivery,” he explained.

“On the finished vehicle distribution side, poor forecasting systems and non-optimal networks have led to high waiting times at the dealer

and poor overall service levels. The aftermarket is scattered, leading to non-availability of parts and high waiting times, and the export chain is not yet fully established as exporting activities have just started to become relevant, in particular for components.”

He said that China lagged behind Japan in the two major areas of parts inventory and delivery times for finished vehicles. “In parts inventory China’s OEM plants have 10 times the inventory levels compared to Japanese plants,” said McCall. “Equally, with regards to dealer OTD times, dealers in China will have to wait on average 30-40 days to receive their ordered cars, while dealers in Japan receive them within one week.”

McCall said that the need to improve service and cost in these areas would drive outsourcing of logistics in China from current levels of around 10% to 40% by 2010. He expected to see a lower level of outsourcing in “fragmented” aftermarket logistics, where Chinese companies currently dominate.



China’s automotive market today, which includes vehicle sales and Tier 1 components, is approximately €100bn (\$120bn) said Ken McCall



FORD MP&L HEAD SOUNDS NOTE OF FUTURE CAUTION

Logistics lies at the heart of the competitive battlefield as all carmakers struggle to be in China's top three by 2010, according to Jacky Wang, material planning & logistics (MP&L) director of Ford in China.

"Quality, cost and speed will continue to be the challenge for the whole industry," said Wang. "In Ford, MP&L is playing the key role. Every company has a different system but needs to manage planning, manufacturing inventory, delivery and customers.

"We get information from marketing and sales, but it's we in MP&L who make our production planning, then order release to suppliers and track and follow up parts, receive them, store them and feed the line. Manufacturing doesn't touch inventory; they just assemble cars on parts from MP&L. Then we manage finished vehicles to customers. It's a simple process, but certainly a tough job in China."

Wang added that as Chinese

suppliers vie to win market share, they can take on too much work and can lack the capacity in plant and technical expertise to meet the demand. "The savings from purchasing are just on paper," said Wang. "You have got to ship each part and only then do you get the savings."

He highlighted the need for OEMs to work closely with logistics companies to help domestic suppliers to set up processes, provide training, set up EDI links and install buffers to ensure flows of parts. But Wang also criticized the lack of reliable 3PLs in China, leading to "very low customer satisfaction" for service providers.

"We have a lot of local logistics companies. They want to be big and compete with foreign logistics companies, but the problem they have is that they do not have global systems or global experts. And they cannot really provide the globalized strategy for the company," he said.

And there was also criticism for international logistics companies operating in China.

"People are not confident in the 'I'm a 3PL' approach any more. It's OK in the US, but do you know my business in China?" he asked. "You are very good in the US, Asia and Europe but that doesn't mean you're good in China. How do you localize strategies and systems, understand customer requirements and how do you localize people? Everybody can make beautiful presentations. I see so many presentations, but it does not convince me. We want to see the practical, real things for China."



Jacky Wang spoke of the need for OEMs to work closely with logistics companies

IF YOU COULD CHANGE ONE THING...



Ken McCall, CEO, TNT Asia, Middle East and Africa Relationships

between suppliers, OEMs and logistics companies. The biggest challenge we have today outside of finished vehicle is restructuring the inbound supply chain. In doing that the amount of partners, because of the physical structure of companies (joint ventures of joint ventures) means that there is complexity in actually achieving the restructure. The difficulty is not that you don't know what to do, it's the execution and trying to get the suppliers and OEMs to work closer together and to move at the speed you need to get things restructured.



Teo Ser Luck, Asia Pacific sales and marketing VP, Menlo Worldwide

There are really two changes. One is the speed of technology implementation to cover the entire market. That's a big requirement for most of the manufacturers. The other the entire process of how customs works in this country. If just one of those factors changes you can improve a lot of efficiency.



Jerry Wang, MD, APL Logistics China

It would have to be around policy changes, restrictions removed, barriers removed, because whatever you do at the moment it's OK, but – and there's always a but – I would like to see a free market here so that 3PLs and 4PLs had a free hand to do things.

LACK OF COMPETITION KEEPS LOGISTICS COSTS HIGH

Lack of competition because of the ownership of joint ventures is keeping logistics costs high in China, said Bernd Frank, general manager of Volkswagen Transport China.

"We have the fact that dedicated automobile service providers are often related to China's car manufacturers, for example Anji-TNT," said Frank. "They are a spin-off of SAIC and, therefore, Anji-TNT has close relations with the OEM, but we have to state that each OEM has its dedicated service providers and we can consider a limited realization of economies of scale."

SAIC is Volkswagen's partner in Shanghai Volkswagen. The main logistics service provider



Fast, reliable quality services are very expensive in China – Bernd Frank

to SVW is Anji-TNT, and not Volkswagen Transport, which is always the case in pure VW operations elsewhere.

"The general demands from Volkswagen on logistics service providers are, of course, also valid in China but affected by the local challenges," said Frank.

"We have a significantly different cost structure compared to Europe. We have high performance demands of manufacturers. We have, however, only limited services available and limited competition among providers. That leads to the fact that fast, reliable quality services are very expensive in China. We have high logistics costs.

"And we see our task therefore in enlarging the transparency among different services and service providers in the support of independent quality providers and to have more competition on the market and in the implementation of optimization teams."



**THE BEST
CONFERENCE
QUOTES**

"The challenge is building up a successful team with the knowledge to equal the



qualities we offer in other parts of the world, the same quality of operations in the US and Europe as you see in China, and we can offer that. It's like a McDonald's here and a McDonald's there, but there's no change in the taste of the burger." - Teo Ser Luck, Menlo Worldwide

"There's less attention to packaging than is deserved. For us, packaging is an area that's like a goldmine. When you look at packaging there are lots of opportunities there to improve the packaging for the operator, from the container utilization and it's a way to reduce total cost." - Sylvia Hill, Delphi

"Standards are so good that everybody's got one. My first job was actually working in an international standards organization, so I know they don't work. I believe in gorilla standards. By that I mean that the powerful players in whatever space it is, should just get themselves together and do it and then that becomes the standard. We are in a situation where time is the critical issue. We haven't got time for a consensus, we just need a gorilla to do it." - John Love, G-Log



"We are in the middle of some supply chain redesign today. Our team has gathered up some maps of China roads. We have got six different maps now and they're each a little bit different. There are roads there that aren't on the map. We have to account for that and we have to have people on the ground." - Jim Commiskey, Menlo Worldwide

"Build-to-order is a high priority for us, because the opposite of it is build-to-stock, and whether it's material or built-up cars, inventory is poison. It costs a lot of money, forces you to lower the retail prices; it damages your image. Inventory is absolutely poison." - Christian Graeff, Audi

DELPHI DRIVES FOR SUPPLY CHAIN INVENTORY REDUCTION

Suppliers need to overcome excess inventory without the help of "historical reference" to overcome the challenges of "unprecedented" growth in the Chinese market, said Sylvia Hill, Asia Pacific production control and logistics director for Delphi.

"There is huge schedule variation and we do still have some long value streams, so there is a cost associated with supporting that growth without having any negative impact," said Hill.

"There are very large swings in the demand we have here as a supplier and probably as we pass on to our suppliers. Managing that through demand planning and forecasting is important. You have to be either prepared by having a very fast supply chain or by carrying extra inventory. And right now we lean on the side of extra inventory. But that's not free and there's risk associated with that - excess and obsolete stock and so forth. We have to try to balance that."

Hill said that the strategy for Delphi is to move to frequent, small lot deliveries for inbound supply to cut its own inventory levels and to allow it to move



Warehouses and distribution centers are not a long-term strategy - Sylvia Hill

from supplier-controlled delivery to controlling transportation itself and optimizing routing and scheduling.

"If our suppliers aren't ready to do that we have pushed them, in some ways, to have their own distribution center close to our site," she added. "Suppliers ship in on a weekly basis, maybe keeping one or two weeks' [inventory] there because of quality reasons - or our own schedule variations because of our customers - and then ship to us every four hours or so.

"Over time this will change. In

my mind warehouses and distribution centers are not a long-term strategy."

Hill said that Delphi was using milk runs to bring in material to a cross-dock operation for distribution to its five plants in the Shanghai area "every day, multiple times a day". The company is also using a cross-dock operation to mix products from different parts of the group to deliver to customers. "We are starting now to reduce inventory, improve frequency and reduce warehouse space close to the customers," she added.

COLLABORATION REQUIRED TO EASE PRESSURE



Collaboration is a must - Jim Commiskey

Companies need to collaborate to maximize efficiency of networks and relieve pressures on the transportation infrastructure, according to Jim Commiskey, VP of global automotive solutions for Menlo Worldwide.

"Collaboration is a must," commented Commiskey "We have heard about the overburdened infrastructure here in China, well it's having its results around the world.

"We are having issues in LA with getting containers through

yards; it's backing up the rail service going back to the Midwest where some of our assembly plants are, and there are similar trends around the globe.

"For those of you that don't know, we are having similar issues in Latin America with moving material into North America.

"We have got to get smarter. We have got to collaborate more. The days of building independent networks are, I think, shortly going to come to an end."

AUDI TARGETS RELIABILITY AND FLEXIBILITY TO MEET CUSTOMER DEMANDS

Audi is to move its CKD imports into China from a lot basis to a part basis as it evolves to cope with the increasing variance of its products. It will also introduce more reliability and flexibility into its processes and systems.

Christian Graeff, senior manager of the carmaker's China CKD operation, said that Audi had already made a switch on the physical material process. "The effect there was to get optimized utilization of containers – to reduce the use of special containers and use more standard containers – and to change the invoicing process, because import duties and tariffs for single parts are different to when you import complete modules or sets," he added.

Graeff said the future aim was to go on a part basis for

CKD, adding that Audi would "need to do our homework" on refining the order process over the next couple of years.

China is Audi's second largest foreign market, after the US, and is likely to become number one before long. In the first quarter of this year, Audi's sales in China rose by 44%. At the same time, customer choice is increasing dramatically. When production of the A6 began in 1999 there were 400 variants; with the launch of the A4 last year that rose to 90,000 and with production of the new A6 next year there will be a six-



We need to do our homework – Graeff

digit figure in variants, said Graeff.

CKD parts account for 40% of the content of the A6 and 60% of the A4, although the target is for the A4 to match the A6 percentage.

Audi has four packing plants in Europe, receiving parts from 600 suppliers worldwide. The carmaker uses TDS Automotive as its logistics service provider and ships CKD volumes out of Hamburg (predominantly with Cosco) nine weeks before production in China, arriving at the port of Dalien four weeks later. After two more weeks, material reaches the

Changchun plant ready for production. Audi keeps three-to-five days' stock of local parts.

Graeff said that Audi wants to increase its 92% accuracy in producing to schedule to 100%. He said that it was working on reducing the four-week "frozen period" before production up to which customers can amend their order.

He also expects to see an increase in build-to-order (BTO). While BTO represents more than 95% of production in Germany and 60% for Europe as a whole, it represents just 7-8% of production in China, said Graeff. "A few years ago it was basically zero," he added.

Vehicle distribution will be integrated into the OTD process, and common IT applications used, to create further improvements.

INDUSTRY FACES UP TO CHALLENGE OF DEVELOPING LOCAL STAFF

Recruitment and retention issues emerged from the conference as one of the major hurdles for carmakers, suppliers and LSPs.

Many of the speakers at the conference highlighted the need to develop local talent as essential to the long-term success of operations. But severe shortages of suitable candidates are compounding high demand from companies.

Jacky Wang, material planning and logistics director for Ford in China, had not been able to fill a vacant position in Shanghai for six months. "I could not find a candidate," he said. "We lack people, especially for automotive logistics."

Jerry Wang, MD of APL Logistics China recounted a meeting with the head of a finished vehicle transport company who had moved his



Teo Ser Luck spoke of the need for a retention strategy to sustain loyalty

head office to Beijing because of the city's bigger talent pool.

TNT is responding to the challenge by launching its own training academy in China this year. TNT China MD Ken McCall said the academy would be capable of training 2,500 people a year, "from the most basic principals and

courses through to people who will have the capability to come and do solution design, warehouse process flow etc."

Peter Reinshagen, China project manager for Gefco, warned of the need to focus on retention as much as recruitment. "Loyalty doesn't exist, this is a very important

issue in China," he said.

"People you may have trained for years might leave for your competition. You have to address this with career planning."

Teo Ser Luck, Asia VP of sales and marketing for Menlo Worldwide, was one of those who agreed. Menlo provides staff with five-year career paths. "We need to have a retention strategy that will continue to motivate and sustain and create that loyalty to the company, which is very difficult today because there are always temptations," he said.

APL Logistics China's Jerry Wang was arguably brave in opening his university high fliers to such a temptation. "I have two management trainees with me today," he told delegates. "I hope you are not approaching them."