

AUTOLOGISTICS
Asia

**THE BEST
CONFERENCE
QUOTES**

Twenty years ago the debate was whether China would continue to produce bicycles or passenger cars! – **Jerry Wang, APL Logistics**

Doing it right the first time minimises a thousand headaches – **Sylvia Hill, Delphi**

Whoever can integrate such a network [to level-three cities] will be very successful for the next three-to-five years in China – **Charles Lin, DTW Logisitcs**

There is hard work to be done ... in China and specifically in the last year, it has been tough staying here and delivering quality products – **Philip Eller, BMW Brilliance**

I come from South-east Asia and I can tell you China has made some tremendous improvements to its infrastructure, much faster than South-east Asia – **Rinaldi Sudyatmiko, TNT-ANJ**

Going out and doing value-stream mapping has uncovered a lot of what you could not see from the reports alone – **Sylvia Hill, Delphi**

You can get a lot of improvement though the incremental approach – **James Hsu, Menlo Worldwide**

As long as the contracts are not signed, you have options to negotiate. This is one of the major features of doing business in China – **Philip Eller, BMW Brilliance, China**

We talk about just-in-time. We have another principle – just-in-case! – **Dr Narayanaswamy Ramu, DaimlerChrysler**

China is the most exciting place for automobiles in the world – **Brennan McNulty, MHSI**

Those OEMs that survive are the ones that focus on getting the waste out using a cost-down strategy – **Mark Flegm, Linpac**

If you want to deliver in China within one day, it will not be possible without spending a lot of money – **Rinaldi Sudyatmiko, TNT-ANJ**

CHINA'S CUSTOMS PROCEDURES TO BE INTEGRATED

The Chinese government plans to overhaul the country's customs procedures. Significant details concerning the move were revealed during the Autologistics Asia conference, which was held in Shanghai on 18 and 19 May.

This is good news for the companies operating in the booming East China region, as it will lead to a more integrated customs system.

Madam Chen Guopei, Deputy Director General of Shanghai Customs, said the Shanghai administration has taken a leading role in submitting a study on customs integration on the Yangtze River Delta. "We are now awaiting final approval from Beijing," she said

The so-called "master plan" she outlined would allow



Madam Chen Guopei, Deputy Director General of Shanghai Customs, gave details of plans to overhaul China's customs procedures

companies to choose where they go for customs clearance, to share the same data on platforms and to have unified and integrated monitoring. Customs is a complicated matter with several procedures being applied ad hoc. This inhibits the movement of goods. The new

plans should alleviate this, she told delegates.

The Customs department has set itself a number of goals. These include increasing public awareness of policies within the automotive industry (via a website), developing a modern and intelligent logistics control system and expanding GPS management to neighbouring provinces. The department will also promote the fast development of regional logistics in the Yangtze River Delta, especially in cities such as Ningbo and Hangzhou. Madam Guopei added that "the customs department will also upgrade its performance, by improving its information-based management and by setting up strategic partnerships with automotive logistics enterprises."

RAIL PRIORITIES MUST CHANGE AS MARKET MATURES



Mike Pilver, Vice President, Global Automotive Sales, APL Logistics told delegates that China needs to improve its rail services to support manufacturing

Mike Pilver (Vice President, Global Automotive Sales) from APL Logistics, highlighted the need for China to improve its rail services to support automotive manufacturing.

As the Chinese market matures, the industry will increasingly need integrated logistics. "The rail and ocean mechanisms are not synchronised from a JIT perspective. This will become a requirement, especially when you start exporting finished vehicles from China. APL has

been assisting the Chinese government on some of the rail initiatives," Pilver revealed.

Philip Eller, Head of Logistics, BMW Brilliance Automotive told delegates: "A number of these initiatives are underway, but initiatives of this magnitude, which require cross-regional cooperation, seem to take a long time to come to fruition."

In response, Jerry Wang from APL Logistics revealed that one of the reasons could be that the railway system is state-owned



Jerry Wang revealed that APL is working with the Ministry of Railways

in China and is therefore a monopoly. It also has a distinct set of operational priorities. The railways are used firstly for military purposes, then for energy requirements which are followed by the transport of people, and manufacturing is in fourth place.

"So we don't have priority at the national level," Wang said. He continued: "We don't have guarantees, but we are working with the Ministry of Railways at the moment to try and find some solutions."

THE DEVIL IS IN THE PACKAGING DETAIL, SAYS SYLVIA HILL

Paying attention to how goods are packed and transported as part of a new leaner approach to manufacturing and logistics could help companies reduce costs and improve customer service.

“Packaging is a good opportunity to identify and reduce costs in Asia,” said Sylvia Hill, Production Control and Logistics Director (Asia Pacific) for Delphi Automotive Systems. Hill, considered to be an industry guru by her peers, did however, caution: “The devil is in the detail.”

A pressing issue – which was illustrated with photographic proof – was the lack of attention paid to how goods are actually moved. At one end of a “spectrum of errors” was the building of crude pyramids, with space at the top being wasted. Another concern was how goods are piled up without being properly secure. This is more likely to lead to costly damages during transit. “The lesson to be learnt,” Hill said, “is to ensure your service provider has trained personnel.”

She used photography to point out how air gaps



Sylvia Hill, Production Control and Logistics Director (Asia Pacific) for Delphi Automotive Systems, maintains that more attention should be focused on how goods are packaged

between packaging often serve no purpose and are a lost opportunity. She revealed that it was sometimes wiser to repack containers for density, no matter what the means of transportation involved. She told delegates how rearranging goods on an airfreight pallet Delphi uses, created savings. “With a little rearrangement

we could save 25 per cent. Multiply that across Delphi’s operations and the savings are staggering,” she said.

Help is at hand for those who don’t have either the time or the physique to move boxes around, with tools such as 3D modelling and container simulations.

Such an interventionist

approach, both across and sometimes within business partners, is sometimes fraught with political challenges, but it is one, Hill argues, that can not be shied away from. “These approaches are not really understood in China and Asia.”

MHSI’s Brennan McNulty agreed, saying that “knowledge transfer and training are needed to allow the benefits of lean packaging to be realised.”

Streams of information

Analysing information is a crucial task for management. An example she gave was analysing, in detail, all damages to assess whether or not the fault lies with the packaging or service provider. However, it would be wrong to see this one example out of context – Hill’s approach is to plan for every part of the process and to engage in value stream mapping, which she said, “uncovered a lot”.

Her approach, which might be dubbed “Good Housekeeping” by those of an old-fashioned cost cutting mentality, is part of a movement towards being lean and generating less waste in both manufacturing and logistics. Delegate James Hsu, Managing Director (Asia) of Menlo, argued for better workplace organisation based on ergonomic design – a view that got broad agreement from other speakers.

Dr Narayanaswamy Ramu, Senior Manager, Materials at Beijing Jeep, stressed the need for manufacturers to remove as many non-value added processes as they can in the search for “lean”. As an example, he said that each step was 0.75m and therefore usually 0.6 seconds of lost effort, which should be ringing alarm bells.

THE SPIRIT OF NETWORKING

The 2005 Autologistics Asia conference, organised by *Automotive Logistics* magazine, was held in China’s powerhouse of manufacturing, Shanghai. This year’s event started with a lively cocktail reception, sponsored

by Panalpina, and featured the trademark Panalpina “Blue Spirit” cocktail. Delegates and speakers mingled on the balcony at the Pudong Shangri-La hotel, admiring the breathtaking views across the Huangpu River and the neon-gilded

Bund. The panoramic views of Shanghai at night did not, however, distract the delegates from the networking opportunities on offer, which carried on late into the night.

The Gold sponsor at this year’s conference was Panalpina; APL Logistics, Lincac Materials Handling and the Port of Vancouver and Port of Portland (both on the US West Coast) were all Silver sponsors. The conference was also supported by the China Supply Chain Council.

More than 110 delegates attended the event, held from 18-19 May. The question-and-answer sessions following the presentations were particularly well received this year.



From the top – the breathtaking view across the Huangpu river to the Bund

PHILIP ELLER SAYS CARMAKERS SHOULD COOPERATE FOR SAVINGS

In a change to the scheduled line-up, Philip Eller, Head of BMW Brilliance Automotive, started the second session of the conference with an analysis of the real problems facing OEMs in China. He also gave an overview of the gaps in the logistics network.

Eller cautioned that he wasn't trying to be accusatory, but hoped to start the process of improvement and to pass on some of his experiences of operating in China. Eller also outlined how BMW addresses supply-chain constraints.

BMW is building its 3- and 5-Series in Shenyang and has so far invested \$179mn in a joint venture with Brilliance Automotive. BMW intends to build 30,000 units, in the medium term, for the Chinese market.

He told delegates that there was a desperate need for logistics companies to deliver good service to OEMs in China. He said: "You have longer lead times, but be reliable in the delivery. We don't want to be involved in logistics processes, it is not our core competency."

BMW Brilliance has to operate using consolidation centres. Eller said: "We don't like this method. We have suppliers in Shenyang

delivering JIT into our assembly plant and we would like to increase this." The plant has a 13,000m² logistics centre to cover and buffer, which is needed because the supply chain is not that reliable. For instance, with emergency shipments, which could take three to five days, airfreight licences are required, which means they can take 10 or 12 days to get clearance. It is not reducing complexity but raising it, without giving benefit to the product," he said.

Discussions

Eller revealed that, in order to address some of the supply chain issues, BMW Brilliance is heading up discussions with Audi and Mercedes for a joint venture on inbound supplies, even though the carmakers are competitors. "Search and actively develop a relationship with potential cooperation partners," he advised delegates.

The majority of BMW, Audi and Mercedes suppliers are the same. "Of course we have to get approval from our



Philip Eller, Head of BMW Brilliance Automotive, discussed the problems facing OEMs in China

"Offer better services, save money for the customer and perhaps even expand your business by doing this. Quick wins and money in the pocket is not of interest to us."

A lack of EDI technology makes track and trace unreliable. Eller described how the peak selling time – early spring – coincided with the Chinese New Year this year. BMW Brilliance had to sub-contract to a further forwarder to deliver cars to the dealers to meet demand and agreed lead times.

The company has tried to address the problem of tracking deliveries by asking them to use mobile phones in every cab. "But it doesn't work if the driver switches the phone off," Eller said. He also mentioned that some drivers had "gone missing for days" and he only found out about this when dealers and customers called him to ask where their cars were. He advised delegates: "In the first years, you have to control the logistics for your yourself. Don't depend on your logistics provider or you will fail."

respective headquarters in Germany to bundle volumes and start to cooperate, whether it is a milk run or direct delivery, for example. We are also talking about reusable bins – we don't support one-way packaging with wooden pallets anymore – but only looking for our 30,000 units is not enough. Therefore we need to bundle and to find common agreements," Eller contended.

Eller also bemoaned the lack of customer-focused thinking in China at present.

MEASURING THE COST OF DOING BUSINESS IN CHINA

The cost of transport in China is around 30 per cent of the total product cost.

This is according to Daniel Brehon, General Manager of Gefco-DTW Logistics, who addressed delegates in a session on day two that focussed on supply chain challenges in China.

"This figure is not astronomical. Usually the logistics cost is between 40-70

per cent of the total cost. The company analysed figures that they gathered from a survey of almost half their supplier base.

"Does this mean transport costs in China are low?" asked Brehon. "No, they are very high. It is merely that the other components of the total cost are very low."

Some surveys indicate that logistics costs in China are some 30 per cent of GDP,

compared to 10 per cent in Europe. "There is still room for improvement," he maintained.

Some of the problems facing logistics providers and OEMs include a lack of truck scheduling (there are queues of trucks at the reception plant), vehicles used are of a poor quality and there is a lack of specialisation. Furthermore, packing and handling pallets

are rarely used and truckloads are not optimised.

The solution has to be to implement standards, but Brehon suggested that "this should be done at a national level.

"The OEMs and suppliers need to get together to standardise dimensions of trucks, packaging and pallets, like they did in the US and Europe," he concluded.

VARYING ROAD FEES TAKE THEIR TOLL ON LSPS

A lack of standard toll fees and regulations for transportation during the daytime is one of the fundamental barriers to efficient finished vehicle logistics in China. It is a problem that several finished vehicle transport operators in Europe would understand too.

Owen Xie, Senior Manager (Automotive Division) of NYK Logistics told delegates that because of variances in the road toll fees, truck drivers will try to take the cheaper road option in order to save costs; they often believe this is in the interests of their employers.

The reality is that many of the Grade 2 roads are in a

bad state and this results in significant and costly damage to the cars.

In addition, the traffic restrictions in Chinese cities during the day mean that most distribution has to be done at night. This in turn leads to costly delays and a restricted flow of traffic.

If damages do occur, drivers will often try to “settle” the damage themselves, Xie said. In other words, the damage will not be apparent to the logistics provider or OEM. NYK is trying to address the problem by training drivers, however, Xie acknowledges that “it is a slow process.”



Owen Xie, Senior Manager, Automotive Division, NYK Logistics, China says it is crucial that drivers be trained properly to avoid damages

CHINA CAN BENEFIT FROM US AUTOMOTIVE DOWNTURN

In the first session of the conference, Mike Pilver from APL Logistics gave the LSPs’ point of view on how manufacturing and logistics in China will grow and develop.

He told delegates that the expansion of Chinese production of finished vehicles, estimated to be some six million units by 2010, has significant implications for the logistics industry. As the Chinese automotive industry grows, US business seems beset with problems, he said. Congestion on America’s West

and East coasts continues to affect business.

Pilver said: “The congestion issues we are seeing are not going to disappear today.” Rising costs of raw materials and fuel is having a negative effect on consumption. He argued: “From the US perspective the joy of owning your own SUV in the US is declining, the five-to-seven miles to the gallon SUV is getting expensive. There is a decline in sales of this model and therefore a decline in the mainstay revenue for North

American OEMs.”

He also identified an industry preference towards asset-owning logistics providers, particularly in markets such as China, where the infrastructure is less developed and shipping is still the most reliable means of transport.

Pilver said: “From an ocean-routing perspective – if you have a hot shipment – an asset owner can prioritise your shipment. That’s where we see a lot of the power shift at this time...end-to-end supply chain services must be adaptive to meet security and infrastructure constraints.”

While asset-owning LSPs seem to be more popular at present, the question-and-answer session quickly identified a problem which exists in China. Steve Wong from Vector SCM said that Western companies are taking a non-asset based approach to trucking and are buying domestic trucking solutions. Claus Schmidt from Panalpina replied: “I believe that Chinese companies are improving and the chance of competition



I believe that Chinese companies are improving and the chance of competition from international companies drives improvements – Claus Schmidt

from international companies drives improvements. I believe that international companies will provide trucking services, but that local companies will improve too.”

Jerry Wang from APL Logistics, who chaired the session, pointed out that some pan-China players have started to emerge. “They were regional, fragmented, small scale companies, but they are becoming more efficient. The race will become competitive and the competition will increase. This is a good and healthy sign,” he said.

This year’s gala dinner was held on a boat on the Huangpu river. Following a sumptuous Chinese banquet, delegates and speakers

were taken on a cruise. The tour took in the magnificent Bund, the old Colonial buildings on the waterfront, and the bustling docks.



THE OPERATOR IS KING AT BEIJING JEEP

“Excessive inventory hides all the problems in the supply chain. When you get the inventory down, these problems come to the surface.”

This is the opinion of Dr Narayanaswamy Ramu, who addressed a session exploring lean logistics and manufacturing. For many companies, getting parts in the right place at the right time is still a challenge in China. Dr Ramu, Senior Manager, Materials, China Project, Beijing Jeep, outlined how he has taken lean manufacturing principles and test-run them in the old Beijing Jeep plant. When the operation moves to its new facilities in Beijing, operators will already be implementing lean practices.

In a highly detailed presentation, Dr Ramu



Dr Narayanaswamy Ramu of Beijing Jeep (DaimlerChrysler) told delegates that the operator is the one who builds the car and should therefore be looked after

emphasised the need to put the operator first. “The operator is the one who is going to build the car. Bring the parts to the operator, not the operator to the parts. If we can support the operator, that is important. If the packaging is not right from the supplier, we repack

the part for the operator.” He added: “We need to look at total cost from a logistics as well as a manufacturing perspective.”

Beijing Jeep was the first OEM to move to China in the 1980s, but this did not make change any easier.

Dr Ramu said: “From my perspective, we have to change the paradigm and implement the lean. This is not only for manufacturing, it goes all the way back to logistics. It took a long time to explain to our people why we had to do this. They would say ‘it has been working for the last 20 years, so why should we change?’”

In the question and answer session, Philip Eller from BMW Brilliance addressed Dr Ramu: “I have discovered that you can train new processes but then it doesn’t happen six months later. How do you control that?”

Dr Ramu explained that DaimlerChrysler had deliberately trained staff in the old plant and learned from their mistakes there. But he agreed with Eller that the process is not an easy one.

COME TO CHINA

Jacky Wang attended the conference in a different guise this year, this time as logistics service provider. He has left Ford and taken over as Managing Director, DHL Solutions China.

In his presentation on how logistics companies can improve their supply chains, Wang told delegates: “Logistics is a low-margin business and global automotive has among the lowest margins. Globally, you can make

an average of six per cent profit. At the moment, this figure is 10-15 per cent in China. However, this will not last long.”

He continued: “I’m afraid you could fail if you want to copy American or European rules here. We are all rule makers and we need to watch this market and learn China’s business first hand. Be practical, take some risks and come to China. I wish you all good luck.”



Jackie Wang warned companies that they could fail if they try to copy American or European rules in China

MARKET IS NORMAL BUT DYNAMIC



Carsten Goransch maintains that incremental change can make a vast improvement to logistics in China

“The car market in China is now touching base.”

This is the opinion of Carsten Goransch, Director, Logistics, Shanghai VW, who addressed delegates in the final session of this year’s conference: “Three years ago, everyone painted everything in pink, but I think now we are touching base; this is a normal but still dynamic market,” Goransch said.

He started his presentation with a quote from Chairman Mao, former head of the Chinese government: “Study hard, get better every day.”

Goransch went on to describe how increasing competition by carmakers, Chinese and joint ventures, new models and higher production capacity are creating a more lively market. He outlined the implications for logistics companies: “The speed of implementation is crucial. All of this is happening under dramatic cost pressure. You must overcome second-best habits. We have to identify best practices, adjust them and implement them as soon as possible...the cost is too high and the logistics costs are not transparent.

“There is no reason why logistics services cannot dramatically improve in China, but there is resistance to change. However, the incremental approach can generate dramatic results; you don’t have to heat up the ocean to make a cup of tea.”