

Automotive
LOGISTICS

Asia conference



Chinese OEMs prepare for expected boom

Clockwise from top left: Linpac's Mark Flegm and Stephen Tobias; Vehnet's Steve Jones; Luka Koper's Andrej Andrijanic; ANJI-TNT's Rinaldi Sudyatmiko; APL's Bruce Smith; and Goodyear Dalian Tyre's Bill Ford



The major shift from last year's Automotive Logistics Asia conference was the overwhelming focus on exports. Everyone is gearing up for exporting car parts and, eventually, fully-built-up vehicles from China. While many of the speakers addressed difficulties and opportunities within China, there was palpable shift in emphasis overall. Alexandra Van Marle reports. The full conference brochure can be viewed at www.automotivelogisticsmagazine.com

All eyes on China

One of the central themes of the conference was China itself, the huge changes it has experienced, and its continued rapid growth. In the first session, David Diebold, Director of David Diebold & Associates, showed how demand had accelerated since China joined the World Trade Organisation in 2001.

In 2010, vehicle demand will be about 7.8 million. By 2015 this figure is estimated at nearly 11 million and by 2020 it will be 250 per cent higher than it is today, at 13 million vehicles. A huge expansion of parts exports is predicted by 2020. "We have recently done an analysis and we estimate that by 2010 there will be 30 billion exports, by 2015 it is projected at 100 billion, and by 2020, the estimate is 400 billion annually, just in auto parts," Diebold said.

Government planning dictates the market

China is now the second largest automotive market in the world and it is dominated by foreign corporations, as Chinese companies still lack technology and expertise. "There is a perception and ambition to create a truly world-class market in China but this is still a process driven essentially by government planning," he explained.

"We are getting dirty parts from our suppliers...we are not a cleaning company, we are a car-making company"
 – **Dr Susanne Lehmann, Shanghai Volkswagen**



Things to be aware of are a continuing focus on improving technology, management skills, training, and funding for research and development.

Diebold pointed out that the Chinese would leapfrog the normal progression of development and search for innovative solutions. "It will not just replicate what goes on elsewhere in the world."

His prediction is that there would be more M&A activity, and the industry should keep an eye on the development of Chinese anti-trust policies. "China is traditionally wary of foreigners, and success will come to those who can cooperate and compete as a Chinese company," Diebold told delegates.

Get the infrastructure right

One of the main challenges facing LSPs in China is infrastructure. Fred Raub, Supply Chain Director of GM Asia Pacific, said that in the US and Europe, eight to 10 per cent of GDP is logistics. "The really sobering figure is that China's logistics costs are between 18 and 20 per cent of GDP. That's where a lot of our challenges lie."

Although major investment has gone into China's road network, with 41,000km of new expressways being developed, the trucks still have room for improvement. Several speakers complained that the rail network gives priority to passengers and the military, and that extensive work is needed to improve the rail system, ease pollution and increase capacity on the roads.

Other issues raised included counterfeit parts and the ability to get things done in China. In the session on aftermarket parts (the pirating of parts is a major headache for manufacturers), Randy Creel, Ford's Director of Service Parts Purchasing for China, said he was working on awareness of branding to curb the problem.

Jim Barnett of GM suggested that having a state-owned partner helped enormously with tackling local issues. "My neighbours work for Fortune 500 companies and they have horror stories about getting things done that I find absolutely easy. They can't get goods out of customs for weeks, whereas my contacts can make a phone call and things move. It is amazing what you accomplish if you have a bit of local knowledge and the right partner. You need to know what the parts of your business are and how they function – and why you need to do what you do."

Take the risk and open in China

"China is a very difficult assignment," summed up Barnett. "The challenges are huge. But we are making large amounts of money, and doing very well." He said that China is a risk and GM is looking for partners who are prepared to take the same risks that it has taken. "We took a huge gamble to come to China – a gamble that many in the press and our counterparts in the industry said was absolutely foolish. GM wants its suppliers to take a risk. You aren't going to win any business from us unless you have people on the ground, you have resources ready to deploy and you have a good in-depth knowledge of the Chinese market." ▶



Rodney Salmon (Linpac) and Paul Derry (MJ Systems)



Ed Donnellon from DC China and Frank Cole (UPS)



Yu Jianmin, Sinotrans

On the grapevine...

"The determination, the commitment, the capacity, the skills and the hard work of the Chinese will carry the business a long, long way."
David Diebold, David Diebold & Associates

"The hunger for knowledge in China is insatiable and sometimes overwhelming... what happens in China over the next decade will have a global impact and touch each and every one of us."
David Cardle, Frazer-Nash Associates

"If you don't have a strong relationship with your customer, the car manufacturer, you will never succeed in getting an integrated network."
Olivier Rateau, Gefco-DTW

"I like to tell people that we are in Toyota's backyard and we are really kicking their butt all over the place. China's one of the few places where we have a level playing field. We are not saddled with high legacy costs, we are not saddled with an unfriendly press, and the Chinese are very smart and savvy consumers."
Jim Barnett, Shanghai General Motors

"We are in the logistics business – the thing we can not ignore is people development. This is one of the most key ingredients in our industry: people make things happen."
Paul Liu, UPS

"Shipping vehicles can be sexy. At a recent vessel launching ceremony many people looked at the ro-ro vessel and said that it was not very sexy. Well, for someone that lives and breathes transporting vehicles, the only thing sexier than that ro-ro would be two or three more."
Robert Strain, General Motors Asia-Pacific

"The day you start designing the product part is the day you should start thinking about the product packaging."
Mark Flegm, Linpac Materials Handling

"Money is really cheap here in China. There's a lot of cash flowing out of the banks and with the right financial instruments you can get money at about 3 per cent. That fuels a lot of growth. Ford may be having trouble in North America, but when you are over here, that blue Ford oval is like a chip at a casino."
Randy Creel, Ford Motor Company

"You can't talk about logistics without any forecasting...If you don't have any forecasts you can't make any plans and you can't make any savings."
Bill Ford, Goodyear Dalian Tire Co Limited

"One thing you will be seeing from GM in the future is a much more savvy understanding of what it means to be global."
Jim Barnett, Shanghai General Motors

"There are simply not enough qualified talented experienced people to do all the work."
Barry Horowitz, Port of Portland

Packaging

Poor packaging and a lack of standardisation are important issues for the industry and they are adding to already high logistics costs.

Mark Flegm, General Manager Asia, Linpac Materials Handling, said: "Packaging costs in China are very well hidden. Car companies are just starting to investigate how much they are really paying for it."

Dr Susanne Lehmann, Manager: Logistics Planning, Shanghai Volkswagen, agreed and said that she now gets quotes from suppliers for packaging costs. Both speakers mentioned that the quality varies greatly and that there was a shortage of qualified suppliers, which results in damaged goods. "We have a lot of cardboard packages without



APL's Jerry Wang and Randy Creel from Ford

pallets which is extremely dangerous, especially considering Chinese roads, so a lot gets damaged," said Dr Lehmann.

But, she added, the majority of problems come from warehouse handling. Electronic goods in particular need special electrostatic containers and dust covers. "We are getting dirty parts from our suppliers which we can not accept. We are not a cleaning company, we are car-making company."

Containers – the bane of manufacturers' lives

One of the major headaches is half empty containers. "The quantity of air that is shipped in China is amazing," said Flegm. "Pack density is unbelievably poor." Fred Raub, Supply Chain Director at General Motors Asia Pacific



Jerry Wang, APL Logistics, China



Maggie Li, Gefco



Dr Florian Seidl, Keller & Kalmbach

agreed, saying that his goal – “a little unrealistic I’m told” – is a 90 per cent full 40ft container.

Flegm complained that a lack of standardisation was adding to costs, and that there are more packaging sizes in China than he had ever seen before. “The same part



The LSP session stimulated debate about the usefulness of local partners

might ship in one size container one week, and the next, it might ship in something completely different. Figuring out how you are going to cube out your transportation is very difficult without these standards.” He added that if the industry developed new packaging, costs would decrease. “We treat packaging as an expense, but it’s really an asset that pays for itself over time.”

Developing better packaging

Shanghai Volkswagen is working together with its suppliers and LSPs to develop better packaging and transporting, taking into account container types and quantities, space management, bar-coding, ergonomics, line-feeding, empty container management and truck distribution.

Dr Lehmann explained that encouraging Shanghai VW suppliers to bring about standardised packaging is one of her key aims and that each new part of model launch is now used as an opportunity to implement it. Part of the problem comes from Shanghai VW’s long history of operations in China. When the company initially sourced local suppliers for components, they all invested in their own packaging solutions. To expect them to reinvest is “unrealistic”, a gradual process is more appropriate.

But Flegm argued this wasn’t enough; what is needed is an industry-wide standardisation. GM’s Raub agreed but stopped short of volunteering to lead the charge. “I think it’s important we work together on this. It would be a good idea for all the OEMs who are paying for freight costs, if we could standardise. I don’t know if GM will lead the movement, but we will participate because I think there are huge benefits here.”

Barry Horowitz, General Manager: Container Marketing, at the Port of Portland, pointed out that complete standardisation is a long way off. “The container is a non-metric box that exists in a metric role. The world, apart from the US, uses the metric pallet which doesn’t fit very well into this non-metric container, and until some way is found to match this up there is going to be a problem.” He pointed out that 17 million container units exist already, so complete standardisation is “not going to happen anytime soon”.

Demand for personnel outstrips supply

One common theme discussed at the conference was the shortage of trained, experienced logistics staff in China, and the lack of an industry qualification. “One very challenging area is the skills gap,” said David Cardle, Managing Director of Frazer-Nash Associates. “The supply of competent professionals is not keeping pace with industry demand.

“There is no shortage of commitment, enthusiasm and financial resources to obtain the skills,” he added. “The hunger for knowledge in China is insatiable and sometimes overwhelming. Companies can invest in the most up-to-date equipment – the most advanced operating systems and networks. But without trained and skilled workforce that investment will count for nothing,” Cardle argued.

Logistics is not glamorous

He pointed out that the West has had 30 years to mature the industry – China has had just five years to reach the same point. There are three reasons for the shortage of personnel: logistics has a poor reputation and is not considered an exciting career when set against industries such as media or IT. Graduate career prospects are often unrealistic, and industry-wide cost-cutting has resulted in the loss of many highly skilled professionals and operators. “The skills gap is



Gefco's Olivier Rateau



Fred Raub from GM Shanghai



David Diebold

a serious issue [which could] halt the growth of China and other emerging markets and threaten globalisation itself," he warned.

It is a difficult problem to overcome. Chinese companies could recruit from overseas, join joint-venture partnerships, buy skills through acquisition, find a strategic partner, or invest in training. This is the best option, he suggested: "And in my view the best people to train Chinese are Chinese. Companies should choose a core group of people to be trained, and then pass on those skills." He added that the industry should introduce a valid qualification.

Keeping everyone in the loop

Bill Ford, Acting Director, Supply Chain at Goodyear Dalian Tyre, raised concerns about the lack of forward thinking. He wanted manufacturers and suppliers to think three months ahead about their inventory needs. Pointing out that no one wants to carry spares, he explained that one of his clients wanted him to keep 40 days worth of inventory on hand, while the client itself kept none. "From their perspective they may think they are saving money but in the end they are not," he stated. "They are just passing it down the chain. This is an admission, I believe, that they have no forecast." He added that another account wanted to vary its requirements 40 per cent from one month to the next. "This is also going to be a big

China fact sheet

- 9.6 million km²
- 22,000 km land boundary
- 14,500 km coastline
- 70,000 kms of rail
- 1.7 million kms of highway
- 120,000 kms of inland waterways
- 10 major ocean ports
- 380 airports with paved runways

(source: Barry Horowitz)

2005 estimated cars produced: 5.8 million

Finished vehicle sales in 2005: 2.5 million

2006: about 2.9 million,

2007: 3.7 million

2008: 4.3 million

(source: Owen Xie)

In 2010, vehicle demand will be about 7.8 million,

By 2015, nearly 11 million

By 2020 it will be 250% higher at 13 million vehicles



Bill Ford bemoaned a lack of parts forecasting information in China

problem – someone is going to have to have extra inventory to manage that variance. If you don't have any forecasts, you can't make any plans and you can't make any savings. Finally, you can't reduce your production costs if you are keeping all this idle capacity, just in case there may be a change in plans."

In China there is often a win-lose relationship on who keeps the inventory. But Ford suggested there is a win-win way, where everyone in the chain is integrated into the final producer's forecast or planning system. "If we don't know, all the way down our supply chain everyone is going to have to carry more and more inventory just in case there is a change from the end user."

David Cardle noted that forecasting is harder in emerging markets as there was little historical information that could help with planning.



Robert Strain, Shanghai GM



Owen Xie, NYK



Crowds gathered at the sponsor stands

FINISHEDVEHICLELOGISTICS  forum

Opportunities abound for LSPs

Last year, China produced 5.8 million vehicles – of which 2.8 million were passenger cars, according to Owen Xie, Senior Manager: Automotive Logistics, NYK Logistics China. He said that China now has a vast customer base, as the market matures, with a 13 per cent growth year-on-year from 2002 to 2003. He pointed out that the Olympic Games [in Beijing in 2008] would add to car consumption and sales, and that finished vehicle logistics would generate substantial revenues and profits for companies in the next few years. Sales last year were about 2.5 million. This year, he predicted, it would be about 2.9 million, rising to 3.7 million and 4.3 million in following two years.

Trond Tønjum, Managing Director of Wallenius Wilhelmsen Logistics China showed the differences between the car markets in China and Europe or the US. He pointed out that in the West, manufacturers have a large variety of models and styles, there is strong competition and dealer networks, resulting in lower pricing and low margins.

Sophisticated logistics is required

Tønjum said that dealers focus on sales rather than extra services. China has a different sales outlook. There is less choice, less competition, few dealers had national networks and cars were supplied from dealer stocks. In logistics, in the more mature market, one LSP would work with different manufacturers, and dealers could order any number of cars – less than a full truckload.

In China, one logistics company often works for only one manufacturer and dealers order full truckloads. But, Tønjum warned, the situation was changing and the industry should be aware of the new demands from Chinese customers, which would put pressure on the supply chain. He said more sophisticated logistics services will be needed soon.

Xie added that to help understand logistics, it is important to look at regional distribution in China. The major market is in eastern China, which accounts for

35 per cent of car sales, with most in the Yangtse River delta region, where most of the manufacturers are located. He explained that the government's 'Go West' policy, which encourages investment in western China, would lead to increased sales there.

Opportunities abound for finished vehicle operators

Xie also emphasised the Guangdong region in southern China as another key car-buying region, and that some manufacturers were opening plants there. Nearly 40 per cent of car carriers were also used for general cargo in China, with cars shifted from north to south, and cargo moved back from the southern manufacturing region up to the north.

“One thing you will be seeing from GM in the future is a much more savvy understanding of what it means to be global”

– Jim Barnett, Shanghai GM



There are many opportunities for foreign companies in finished vehicles, he added. Chinese companies had a lack of experience. And, Xie said: “Finished vehicle logistics requires huge cash flow and foreign companies have a big advantage in this area.”

For finished vehicle logistics operators to succeed in China, they should leverage their branding, have solid finances, and actively look for new business.

On non-China trade, Robert Strain, Regional Logistics Manager at GM Asia Pacific talked about the lack of capacity on car carriers. “We are exporting a vast majority of units produced in Asia-Pacific. For ro-ro service providers, the number one challenge is capacity. We can produce more vehicles than we can ship now. That is a serious problem for growth, not only in the Asia-Pacific region, but in the entire industry.” ●●●