In-company Situation and Development Strategy for Chinese Domestic Third-Party Logistics Providers (3PLPs)

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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 In-company situation of domestic 3PLPs. Based on the discussed background, the study analyses domestic 3PL companies in China. Finally, the study recommends specific strategies to strengthen competitive power of global 3PLPs in China. This study provides a theoretical foundation for academics and also practical guidelines for logistics services industry.

1. Introduction
Since China became a member of WTO in December 2001, Chinese logistics industry has improved tremendously. 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. Nevertheless, Chinese logistics industry is provided with huger market room for further development.

Based on above analysis, the research purpose of this study is stated below: Firstly, the paper examines current situation and In-company situation of 3PLPs. Based on this, the study analyses domestic 3PL companies in China. Finally, the study recommends specific strategies to strengthen competitive power of global 3PLPs in China.

2. In-company Situation of Domestic 3PLPs
In Chinese LSI, there are three main distinct groups coming from different origins. They are traditional central or state-owned transport and warehouse enterprises, for example China Shipping (Group) Company; private logistics enterprises, for example Gongsuda Logistics (Shenzhen), Co., LTD; Sinoforeign or foreign-capital logistics enterprises, for example S.F. Express. According to statistics in 2013, 60% of these logistics enterprises are central or state-owned logistics enterprises which covered 83% in total annual revenue on top50. This amount is much higher than private logistics enterprises (24%) which covered 13% and Sino-foreign or foreign-capital logistics enterprises (16%) which covered 4% on top 50. From the 50 list of logistics enterprises, it is still dominant for the central or state-owned logistics enterprises.

2.1. China Shipping (Group) Company
2.1.1. Overview of Company
It is a large state-owned logistics enterprise group with shipping as its main business, established in 1997. The headquarters of the group is located in Shanghai. China Shipping has the total assets of 200 billion RMB and annual income of more than 80 billion RMB. By the end of 2012, the company has 44,186 Chinese employees and its logistics general income in 2014 was 67.65 billion RMB. Its four subsidiaries: China Shipping Development, China Shipping Container Lines, China Shipping Haisheng and China Shipping Science & Technology. China Shipping is a well-known logistics company in China, was nominated as the number 3 of the Chinese top 50 logistics companies in 2014.
2.1.2. Service Provided
The main service rendered by China Shipping is transportation of containers, oils, bulk cargo, LNG, passenger, cars and special objects. Meanwhile, the group, focusing shipping as the primary business, are actively involved in upper and downstream businesses and forms a pattern of synergistic development of shipping with shipping finance, comprehensive logistics, terminal management, ship repair and building, science & technology & information. China Shipping actively promote the development of logistics industry, format three-dimensional large logistics system in air, provide full “door to door” service for global customers, actively expand the internationalization and modernization of green dock industry, steadily develop the financial business for establishing a sound financial investment group management and operation platform.

2.1.3. Distribution Networks
It implements “Going Global” strategy and explores overseas market to build itself into a global player. It sets up seven overseas holding companies acting as important support to its global network and revenue growth engine in North America, Europe, Hong Kong, Southeast Asia, West Asia, Africa and South America, affiliated with over 400 sales outlets in more than 100 countries and regions. China Shipping provides customers with complete logistics solutions and integrated logistics services as their responsibility. It is China’s first batch of 5A level logistics enterprises.

2.2. Gongsuda Logistics (Shenzhen) Co., LTD

2.2.1. Overview of Company
It is a private domestic logistics enterprise, established in 1998. In the beginning, the company was a private shuttle bus company providing shuttle service for some companies. In 2001, Gongsuda started to be involved in the real logistics industry and expand its business to outside south China area. During the following years, the company developed its logistics business and service system throughout the country, and gained great achievement in the Chinese logistics industry. Gongsuda employs 1200 staff with its turnover of about RMB 230 million in 2007. In 2014, the company was ranked the number 43 of the top 50 Shenzhen logistics companies. Overall, through ten years’ development, Gongsuda has transformed itself from a traditional transportation enterprise to an integrative 3PL enterprise that provides containerized traffic, trunk line transportation, region distribution, warehousing, and international logistics services.

2.2.2. Service Provided
Gongsuda Logistics has provided various logistics services for its customers. The services consist of basic logistic services, some value-added services, and supply chain solution service. The basic logistic services Gongsuda Logistics provides include transportation, warehousing, distribution, inventory management. The value-added services involve sorting and sequencing, simple manufacturing and assembling, and vendor-managed inventory. Some other value-added services such as tagging and labeling, on-demand packing and repacking also can be indentified through website information analysis.

2.2.3. Distribution Networks
Gongsuda Logistics has invested vast capital in the construction of physical distribution networks, which includes “one base”, the managing and controlling base in Shenzhen Headquarters, “three networks”, mainline transportation network, regional distribution network, and relative information network. The networks involve 12 branch companies and more than 70 business offices all over the country, covering central China, south China, east China, north China and north-east China. There are 20 distribution centers and 30 warehouses within the system and more than 1000 vehicles with Gongsuda has long-term strategic partners in the north-west and south-west China, who usually support the services required in these areas. The company has defined itself as a 3PL enterprise that is equipped with advanced logistics concept, effective networks, and modern technological system.
2. 3. S.F. Express

2.3.1. Overview of Company
It is a mainly engaged in international and domestic express business of Hong Kong express enterprise. Ever since its establishment in Shunde Port in 1993, S.F. Express has been committed to improving service quality and satisfying market demands. It has set up powerful business services including information collection, market development, logistics distribution and express delivery services. Through the cooperation with international companies, S.F. Express has developed itself as one of the most famous logistics company in China. It was ranked number 10 of the top 50 logistics companies in 2014 and the logistics general income was 25.7 billion RMB in 2014. As of September 2015, SF Express has nearly 310,000 employees, 15,000 vehicles, 20 aircrafts and 12,260 service centers in mainland and overseas countries/regions.

2.3.2. Service Provided
The Company provided one-day express services between Shunde and Hong Kong in the early days of its establishment. With our rapid development and internationalization, S.F. Express has now become one of the domestic leaders in China's express delivery industry. It develops land and air networks of express delivery in an active and orderly way, and focus on the construction of qualified personnel, which are the top priorities in the Company's mid- and long-term development.

2.3.3. Distribution Networks
In addition, it has set up nationwide service network. Since its establishment in 1993, S.F. Express has been investing heavily to improve its services networks from Zhongshan to the Pearl River Delta to the Yangtze River Delta. The services landscape has been expanded from South China to East China, Central China and North China and from Mainland China to Hong Kong, Taiwan. And now it is actively expanding its overseas business, including U.S., Singapore, South Korea, Malaysia, Japan, Thailand, Vietnam, Australia, Mongolia, Indonesia and lately India.

3. The Analysis Results on Domestic 3PLPs

3.1. Physical Distribution Networks provided are more comprehensive. All three logistics companies chosen come from the areas of Pearl River Delta and Chang Jiang River Delta, which is the most developed coastal area in China, and the logistics industry there has developed faster than other areas of the country.

3.2. Services provided are more diversified. Originally, the three companies provided only basic and single logistics service. With the development of third-party logistics in China, the companies have moved their attention to multifunctional logistics services, such as transportation distribution, warehousing, and inventory management. Further, these companies start to provide some value-added services and supply chain solution services that were motivated by the increasing requirements from customers.

3.3. Information Technology Systems provided are more advancing. Information technology has been addressed as an important driver of supply chain management. Interestingly, the companies involved are all equipped with different information systems that comprise similar functional information technologies.

4. Strategies to Enhance Competitive Power of Domestic 3PLPs

Based on a substantial body of literature, the study has provided the clearly understanding of the current situation and development characteristics of the domestic 3PLPs. It is timely to extend the issues to progress with more normative considerations.

4.1. Development of competitive strategy. Competitive strategies have been developed the two generic strategies as cost leadership strategy (or value advantage) and service leadership strategy (or productivity advantage). To achieve value or differential advantage, 3PLPs have put great effort in improving service advantage. Firstly, the companies have provided customers with various logistics
services, from basic services to value-added services and supply chain solution services. Secondly, to support effective and efficient logistics services, the companies have developed effective physical distribution networks including a number of logistics bases, DCs, warehouses, transportation and regional distribution networks throughout most areas of the country. Finally, the companies have introduced and established different IT systems to improve the overall efficiency and visibility of logistics operations.

4.2. Development of distribution networks strategy. Obviously, an effective physical logistics network is critical for successful logistics operation. Firstly, all the network strategies comprise logistics base strategy, main line transportation strategy and regional distribution strategy. Secondly, during the process of the network development, customer business requirements influence the network decisions significantly. When customers have service need in a new region, the companies would extend their network towards the places where customer needs can be satisfied. Finally, the shifting of government’s developing policy has significant effect on logistics companies’ network strategies. It has been known that China is shifting development from richer coastal regions to poorer regions in the remote interior. With the shifting of developing policy, many firms have to relocate manufacturing from traditional coastal-area to the interior. When the location of customers’ manufacturing shifts, logistics companies have to develop their networks to enhance their competitive advantages in the interior area.

4.3. Development of IT system strategy. Information has been identified as one of the main drivers of the supply chain. Logistics companies have put great effort into adopting and developing IT systems at different periods for different business requirements such as: customer service communication, operation controlling, planning, and co-ordination. The IT networks development of logistics companies can be summarized into three main stages. At the first stage, the companies introduced IT systems to support internal data processing and information communication, which ensures the effectiveness and efficiency in the company-wide management. Second stage is to introduce IT systems to support external information, data processing and transferring between the 3PLPs and their customers. Third stage refers to use more sophisticated and integrated IT solutions to meet the increasing supply solution requirement.

4.4. Development of customer relationship strategy. The cooperation situation requires the companies to elevate the normal transactional relationships to strategic stage. Firstly, building customer relationships should be developing compatibility. This means both 3PL users and providers should have compatible corporate culture and value, which has been defined as “selective matching” or “compatibility”, one of the key ingredients to a successful partnership. Secondly, building customer relationships should be open communication. Communications have been identified as a critical element that can make the difference between success and failure in logistics outsourcing. Finally, building customer relationships should be the mutual commitment. The commitment can be understood based directly on the customer base. This can be understood that if the 3PLPs make a commitment to their customers, the customers will keep outsourcing their logistics to the 3PLPs; while the 3PLPs will constantly provide satisfying logistics services to these customers in return for their commitment.

5. Conclusion

The paper examines the current situations of Chinese domestic third party logistics providers. According to survey, the study analyses and finds motives of domestics third party logistics providers for globalization. Based on the analysis results on domestic 3PLPs, Strategies to Enhance Competitive Power of Domestic 3PLPs are suggested “competitive strategy”, “distribution networks strategy”, “Development of IT system strategy”.
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