

China Express Delivery and Road Haulage Industry Analysis Survey 2008

by

China Economic Indicator



Understanding China's Economic Indicators



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2 China Express Delivery Overview

With the fastest growing express delivery and road haulage business in the world, China represents a market that anyone with a vested interest in the logistics sectors ignores at their peril. The following report, by **China Intelligence Online**, compiled in the spring of 2008 is by far the most exhaustively researched report on the market at present. Compiled partly through China Intelligence Online's unique access to government databases and partly through primary research conducted on the ground across China in a series of in depth profile interviews, this report currently represents the most comprehensive overview of the sector to date.

To compile the information contained within, the research team consulted secondary sources from government institutions, trade federations, trade groups, online resources, and public and private databases. For primary research, the team conducted a series of interviews with prominent companies in the industry in all major growth areas; Beijing-Tianjin, the Pearl River Delta and the Yangtze River Delta.

In terms of primary research China Intelligence Online conducted extensive face to face interviews with a large number of express delivery and road transport companies in different fields. China Intelligence Online felt that a broad cross section of the road transport market would help give the best overall view of the profitability of the domestic express and road haulage market.

The companies approached by China Intelligence Online were as follows:

- **ZJS (Beijing Zhaijisong)**
- **SF Express (Shunfeng Express)**
- **CNEX (Jiaji Express)**
- **Beifang Logistics Co., Ltd.**
- **Southern Logistics Co., Ltd. (Nanfang Logistics)**
- **Neda Express (Guangdong Gangzhong Nengda Express)**
- **HYC Logistics Co., Ltd.**
- **South Logistics Inc.**
- **Shenzhen E-Road Logistics Co.,Ltd**
- **Yueh Fung International Logistics Ltd.**
- **Haiyuan Logistics Group Co.,Ltd**
- **HYC Logistics**
- **Shenzhen E-ROAD Logistics Co.,Ltd**
- **Yueh Fung International Logistics Ltd**
- **S.F. Express**
- **P.G. Logistics Group Co., Ltd**
- **Shenzhen Tempus Logistics Holding Limited**
- **Shenzhen Excellence logistics Co.,Ltd**
- **Baisui Logistics**
- **TNT**



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Our work

Editor-in-Chief Ryan Perkins' articles and research have been featured in publications around the world and their analysis has been used by global companies such as Transport Intelligence, Parcel Force, UPS and the Economist Intelligence Unit.

Our researchers and analysts can help you understand the most dynamic and challenging market in the world as well as provide strategic, on the ground, practical assistance.





4 Executive Summary

The China express and road haulage market represents a massive opportunity for anyone with the resources and will to engage in the sector. Whilst fragmentation and under-agglomeration represent major impediments to the operation of the industry they also represent huge opportunities for development.

Although the vast bulk of the industry is dominated by the smaller scale operators and individual players, there are numerous larger enterprises that are all vying for a larger share of the market.

A general stagnation of prices in the sector coupled with spiralling costs has effectively eroded the amount of capital available for expansion and consolidation necessary for the creation of a smooth functioning industry dynamic.

Given the large levels of under agglomeration in the industry and the fact that the central government is likely to make low cost loans available to the express delivery sector in the near future, it is likely that some of the larger enterprises engaged in the industry will take advantage of this and aggressively expand their networks.

Also within the overall industry structure profit margins within domestic enterprises in the express delivery sector tend to be low. For the majority of companies profit margins tend to be around 10 percent. It is this level of profit that has led to many enterprises expanding their business networks through means that require minimal investment.

It is these methods, for example alliances, franchised branches and partnerships that in many ways contribute to the overall under-agglomeration of the industry, and the overall lack of standardisation across all levels of the industry. This is also one of the over-riding reasons why many of the companies in the industry have enormous difficulty building their brands and imposing standardised customer service provisions across their companies.

In general many of the companies surveyed intend in the near future to attempt to diversify their operations from express delivery provision into areas such as supply chain management, and warehousing, which many see as a more stable and profitable sector than road transport, given the recent fluctuations in the market and the relatively underdeveloped nature of supply chain management in China. Numerous enterprises commented that they see the sector as a more profitable area than road transport.

In general the sector is ripe for a sustained period of integration and standardisation. However, the nature of this process depends greatly on forthcoming legislation and the desire of the Chinese government to protect small and medium scale enterprises in the sector. However, whatever happens, it seems likely that market developments in the near future will either eventually be forced to lead to increased profit margins in one way or another. Whether this is achieved through increased pricing or consolidation of the industry remains to be seen.



5 Scope of Report

The following report focuses on development of the road transport sector of the express delivery industry across the country as a whole but specific detail within the Yangtze River Delta (YRD) region and Pearl River Delta (PRD) regions of the People's Republic of China.





6 Methodology

To compile the information contained within, the research team consulted secondary sources from government institutions, trade federations, trade groups, online resources, and public and private databases. For primary research, the team conducted a series of interviews with prominent companies in the industry in both the Pearl River Delta and the Yangtze River Delta; the two regions that represent the fastest growing regions of the domestic China market.

In terms of primary research China Intelligence Online conducted extensive face to face interviews across both Shanghai and the PRD with a number of road transport companies in different fields. China Intelligence Online felt that a broad cross section of the road transport market would help give the most representative view of the express industry and road haulage sector market.

The companies approached by China Intelligence Online were as follows:

- ZJS (Beijing Zhaijisong)
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- Shenzhen Tempus Logistics Holding Limited



- Shenzhen Excellence logistics Co., Ltd
- Baisui Logistics
- TNT





7 Industry Structure and Composition

7.1 General Overview

In general, State-owned enterprises dominate the inter-city express delivery business, private ones retain the majority share of the intra-city and local inter-city business market, and foreign-funded ones have an obvious advantage in the international sector.

Within the road transport segment there is a great deal of confusion about what qualifies as express and what does not. Some companies that deal with express delivery do not label themselves as such. Even the terms for express, *kuaidi* and *kuaiyun* (literally translated: fast delivery and fast transport), are sometimes used interchangeably.

Many companies that in the west would traditionally be classified as dealing in parcels do not define themselves as such. Again much of this is due to amorphous definitions and a lack of standards in the industry.





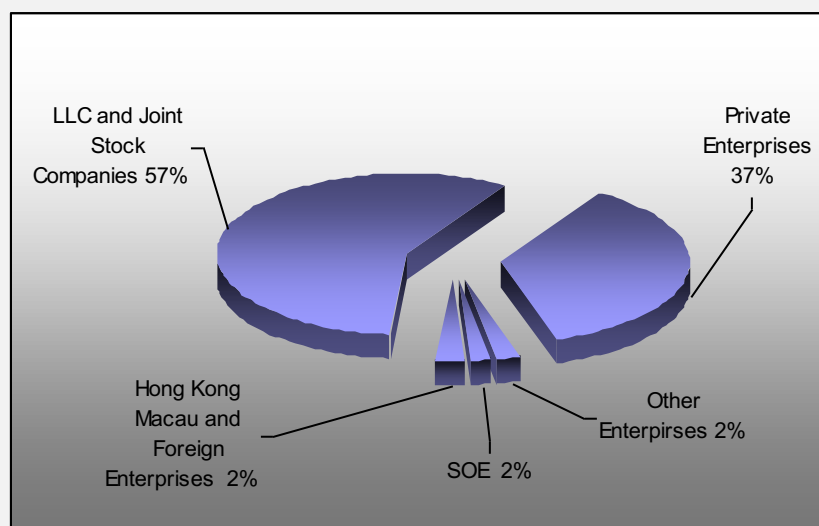
7.2 Results from the First Survey of the Express Industry

On June 29, 2007, the National Bureau of Statistics and the State Postal Bureau jointly issued 'The First Survey of the Express Industry'.

Results of this survey show that the annual completed business volume of the industry in 2006 reached 1.06m items and the industry reported realised revenue of CNY 29.97bn in 2006. The report found that the Chinese express industry has undergone rapid growth in the overall size of the market and witnessed an expansion of both products offered and areas served.

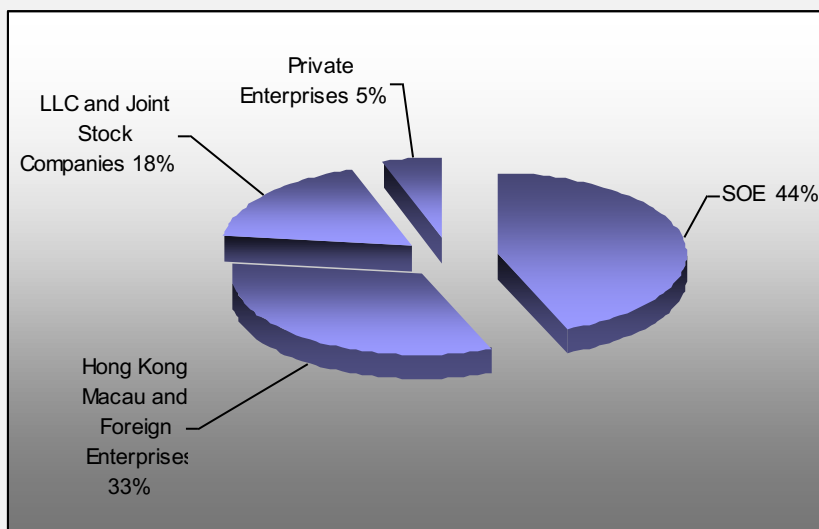
Results of this survey indicate that by the end of 2006, there were 2422 medium to large sized enterprises operating express business throughout China.

Figure 1: Express Companies by Ownership 2006



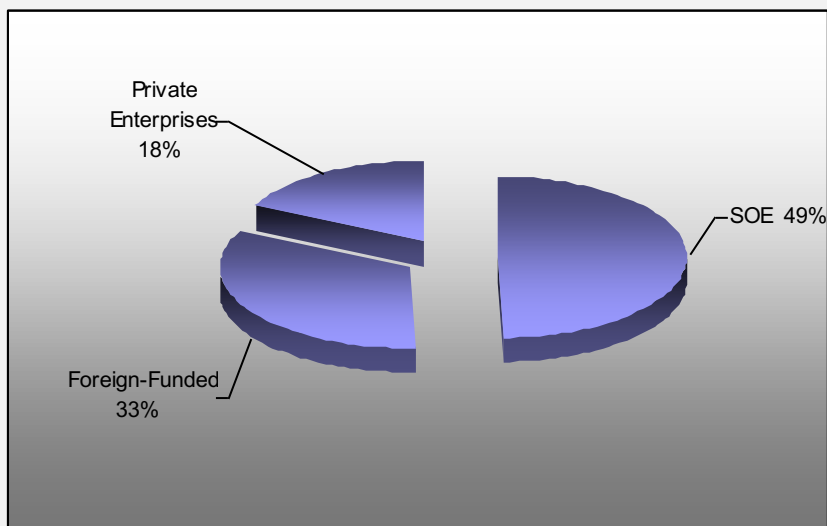
Source: First Survey of the Express Industry

Of these 2422 enterprises, 1.7 percent were state-owned enterprises, 57.3 percent were limited liability and joint-stock companies, 36.6 percent were private enterprises, 2.4 percent were Hong Kong, Macao, Taiwan and foreign invested enterprises, and 2 percent were other enterprises.

**Figure 2: Express Revenue by Ownership 2006**

Source: First Survey of the Express Industry

China express delivery total revenue for 2006 was CNY 29.97bn. State-owned enterprises accounted for 43.8 percent, limited liability and joint-stock companies accounted for 18.0 percent, private businesses accounted for 5.1 percent, and Hong Kong, Macau and foreign invested enterprises accounted for 33 percent, whilst other enterprises accounted for 0.1 percent.

Figure 3: Express Market by Business Volume 2006

Source: First Survey of the Express Industry

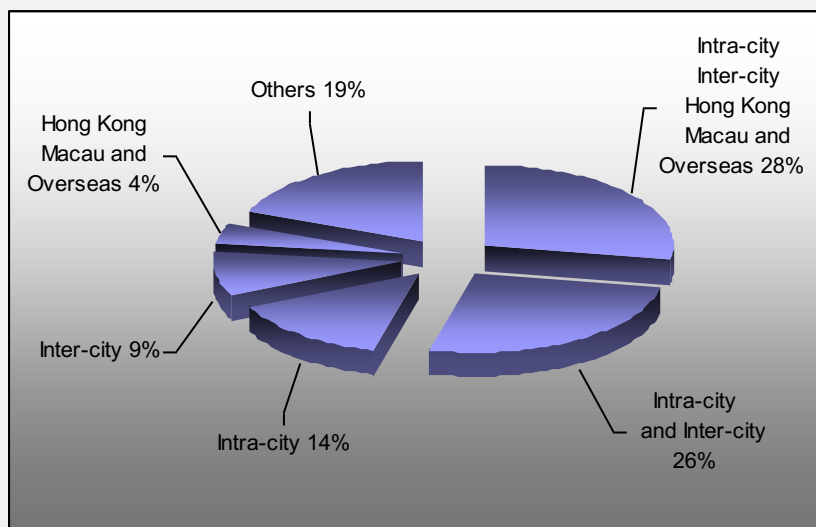


Meanwhile, state-owned, private and foreign-funded enterprises took up 49.5 percent, 17.5 percent and 33 percent of the Chinese express delivery market respectively, with a business volume of CNY 14.84bn, CNY 5.24bn and CNY 9.88bn respectively.





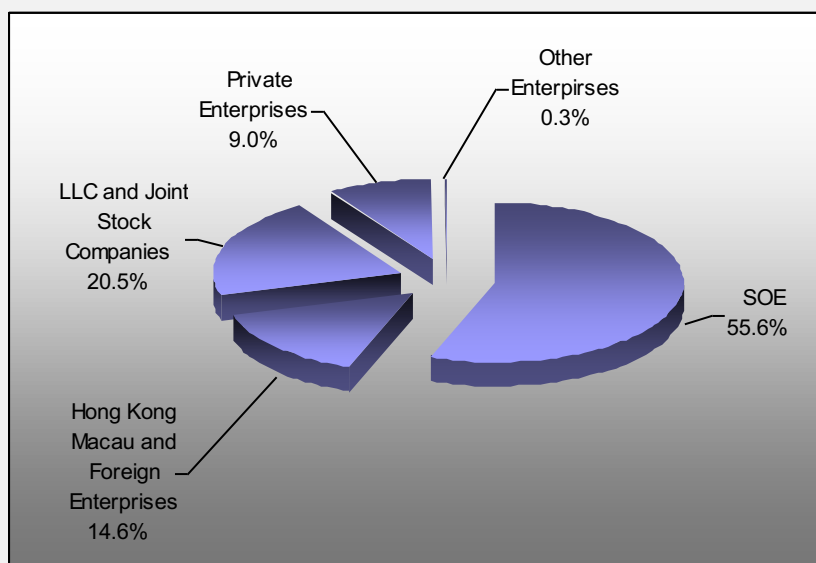
Figure 4: Express Volume (pcs. sent)



Source: First Survey of the Express Industry

27.7 percent of the enterprises had operating areas that included intra-city, inter-city, Hong Kong, Macao and overseas markets; 26.3 percent of these enterprises only operated in the intra-city and inter-city market; 14 percent of them only dealt with intra-city delivery; 9 percent of them dealt only with inter-city delivery; 4.2 percent dealt exclusively with Macao, Hong Kong and overseas delivery; 18.8 percent were classed as other.

Figure 5: Express Business Volume (pcs. sent)

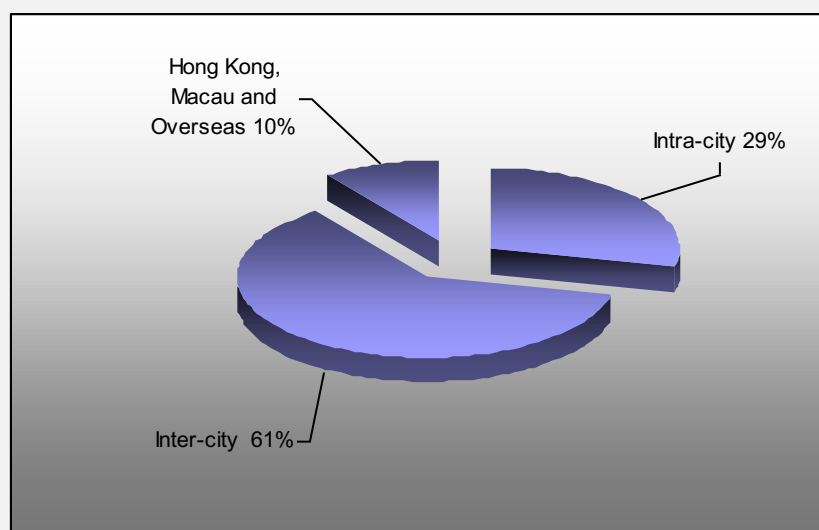


Source: First Survey of the Express Industry



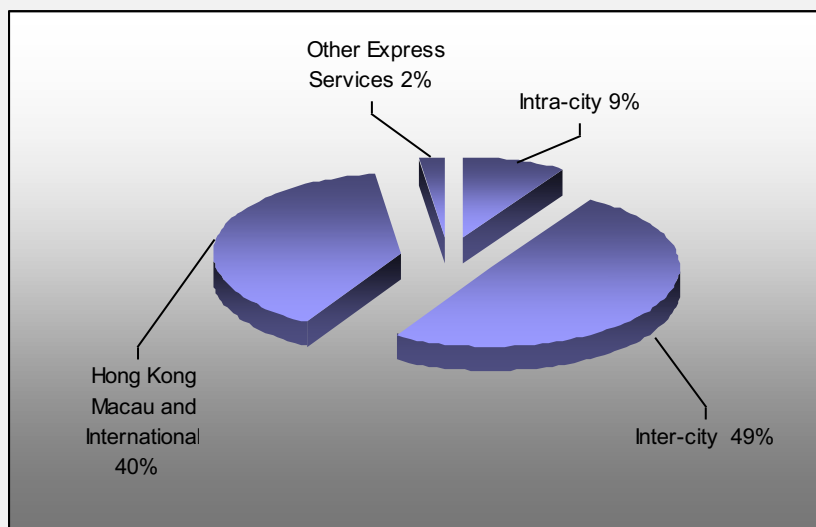
In 2006, the annual completed business volume of the express delivery industry was 1.06bn items, among which 55.6 percent were handled by state-owned enterprises, 20.5 percent were handled by limited liability or joint stock companies, 9 percent were handled by private enterprises, 14.6 percent were handled by Macao, Hong Kong and foreign enterprises, and 0.3 percent were handled by other enterprises.

Figure 6: Express Business Volume



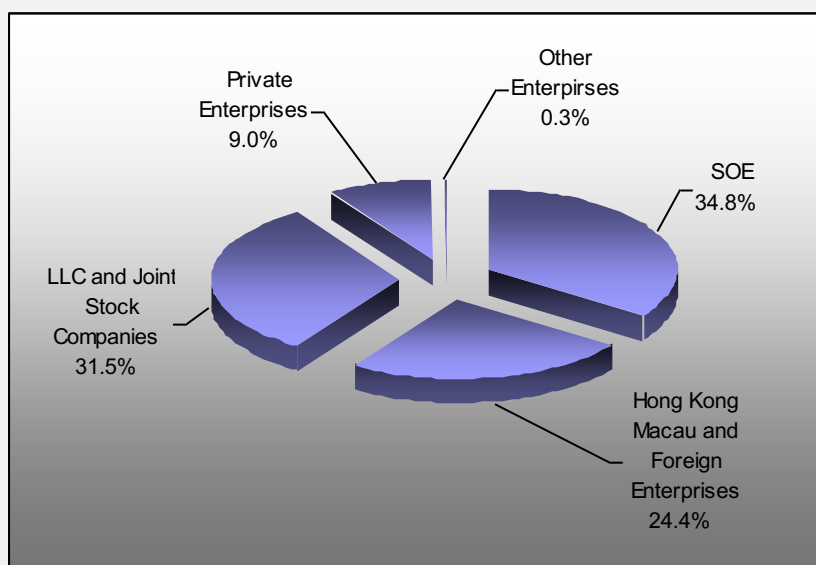
Source: First Survey of the Express Industry

For express business volume, intra-city volume of business accounted for 28.5 percent, volume of inter-city delivery was 61.5 percent, and the business volume for Macao, Hong Kong and International delivery was 10 percent.

**Figure 2: Express Operating Income**

Source: First Survey of the Express Industry

For operating income, 9 percent was from the intra-city delivery service, 49.2 percent was from inter-city delivery service, 39.7 percent was from Macao, Hong Kong and international delivery service, and 2.1 percent was from other express services.

Figure 3: Express Employment

Source: First Survey of the Express Industry



Of the 227,000 express service employees involved in this survey, 34.8 percent were from state-owned enterprises, 31.5 percent were from limited liability and joint-stock companies, 9 percent were from private companies, 24.4 percent were from Macao, Hong Kong and foreign enterprises, and 0.3 percent were from other enterprises.



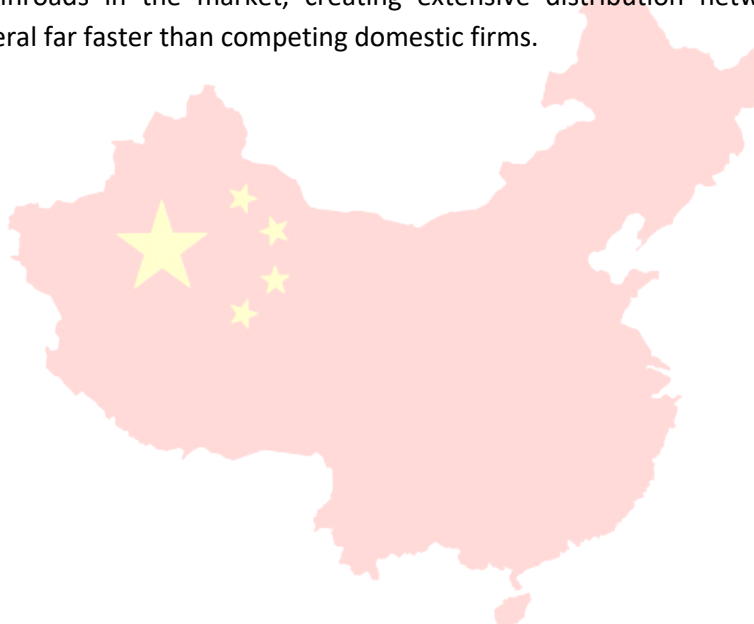


7.3 Market Segmentation

Traditionally foreign and domestic invested express delivery enterprises operating in the China market have tended to compete in their own respective, exclusive arenas, operating something akin to a three layer system, if one includes the small scale operators. Foreign express delivery providers have in general remained more popular among foreign invested customers and have as such generally adopted a different market approach to domestically invested enterprises which have tended to concentrate on the lower revenue sector comprised of primarily domestic clients.

In this respect the three sectors have formed an almost complementary three tier system, with neither larger domestic invested enterprises, nor foreign invested, interested in pursuing the cutthroat margins at the bottom end. Further to this larger domestic enterprises have been largely unable to compete with the global reach of foreign invested enterprises.

However, given the recent deregulation of the market foreign invested express delivery providers have made significant inroads in the market, creating extensive distribution networks in China and developing in general far faster than competing domestic firms.





7.4 Small Scale Enterprises

Despite the obvious development of the industry over the past few years the sector still suffers from an enormous level of under-agglomeration. It is in part this under-agglomeration, coupled with the emerging nature of the sector as well as the Chinese economy as a whole, which ultimately leads to a lack of standardised operating methodology and terminology. Across the sector industry standards are sparse and definitions of business models vary greatly at both the macro and micro levels.

Under agglomeration within the industry is perhaps characterised best by the fact there are literally tens of thousands of private express companies in China, the vast bulk of which are small scale outfits. As an example, the China Federation of Logistics and Purchasing (CFLP) estimates that revenues for small scale national private express companies in 2006 exceeded CNY 10bn, and more specifically within this figure, revenue for intra-city express companies exceeded CNY 3bn.

The development and survival of these small scale companies is in part due to growth in general market demand, their inherent flexibility to meet the needs of small businesses operating in a dynamically changing economic environment as well as the inherently low investment threshold for entering the market at that level, and the relatively low cost, high flexibility, low skill labour pool available to such operators.

The bulk of these small enterprises have no access to capital, and almost no registered funds. They are essentially self-financing and survive ostensibly via their capacity to meet the changing needs of their client base. Compared with larger, more formalised enterprises, these small businesses generally have a more flexible mode of operation, lower prices and tend to provide very reliable services – this in itself is indicative of the need to maintain steady business relationships, as these companies have very limited capacity to attract new customers and so primarily rely on client retention.

These small scale enterprises operate a wide variety of vehicles ranging at the bottom end from electric bicycles to small fleets consisting of a handful of trucks. Many such companies are well regarded by their clients who often rely on a single or small number of permanent suppliers.

At present it is estimated that 80 percent of the intra-city express market and 50 percent of the regional express service market is occupied by such companies. In terms of cargo originating in the Shanghai region, such enterprises have achieved a 70 percent market penetration in terms of deliveries to the wider regional and national markets and a 95 percent penetration in terms of the intra-city market.

Taking the Shanghai market as an example, there are over 12,000 companies with express, or similar services, included in their business registration, the majority of which are small enterprises. Figures from the CFLP indicate that, with 120,000 employees spread between these companies, the average number of employees hired by these small enterprises is around ten. The primary bulk of this employee base remains low cost migrant workers consisting mainly of laid-off state, ex-state, or industry employees.

These smaller scale enterprises are able to exist largely because they are able to function at the lower margins of the sector where larger more investment heavy players are unwilling or unable to accept



such low returns on investment. The level and nature of small scale company activity within the sector is indicative of the China market at large, where reverse engineering operations away from high tech solutions, toward a more labour intensive approach is common. It also underlines the high levels of under-agglomeration within the sector, as well as the wider logistics industry at large.





7.5 Larger Scale Enterprises

The larger scale domestic express enterprises that dominate the mid-range market are numerous and diverse and there is a general lack of standardised operating procedures and terminology between enterprises. A large number of these enterprises were formerly military organs or were at least owned and operated by the military until legislation forced the Peoples Liberation Army to sell off all its commercial assets in the 1990s.

In addition, many of the companies operating in this sector have grown from small scale enterprises, largely under the effort of their own investment. Given the relatively low profit margins in the sector, this has meant that many companies, lacking substantial capital funds for investment, have grown and extended their networks through development of franchised outlets and operations, creating formal and informal relationships with other providers, more so than through merger and acquisition activity.

It is estimated by the CFPL that there are over 2,000 such enterprises operating in the China market whilst the NBS puts the number at 2,422. The vast bulk of these tend to specialise in their own local areas, such as the PRD, the Yangtze River Delta, and the Beijing/Tianjin area and generally offer localised services. Most of these companies do not own assets nationwide, though nation wide services are usually achieved through franchising or through formal and informal alliances.

Very few of these companies offer international services, and usually outsource such requests to specialist providers.

In the case of franchised networks, the franchisees usually enjoy a surprising level of autonomy, in terms of both general operational modes, and financial accounting and reporting. Many companies feel that this degree of autonomy creates obstacles for them in developing corporate presence and maintaining standards across the entirety of their business operations. However, lacking capital outlays required for expansion, it is the course that many have taken.



7.6 Overview of Major Domestic Enterprises

Shentong Express (STO) as one of China's largest private express enterprises has established a fairly completed delivery network after 10 years of development. It has 30,000 employees and the turnover for 2006 is expected to reach almost CNY 3bn.

2006 was an important year for Beijing Zhaijisong (ZJS), which relaunched its bid to list on the Hong Kong stock exchange. ZJS has become a leading express enterprise in China after 12 years of development. The company has set up business in northern, eastern, southern, and western China, and built 7 logistics bases in Beijing, Guangzhou, Wuxi, Wuhan, Chengdu, Xi'an and Shenyang

Shanghai YTO Express has developed rapidly in recent years. Shanghai is the centre of the service network and links with Beijing, Tianjin, the Pearl River Delta and the Jiaodong Peninsula region. The company has 20,000 employees and the turnover of 2006 is expected reach CNY 1bn.

SF Express was set up in Shunde Guangdong in the 1990s, in conjunction with Hong Kong investment, and has now expanded from the Pearl River Delta region to the whole nation. The company has more than 30,000 employees and the turnover of 2006 is expected to exceed CNY 2.5bn CNY.



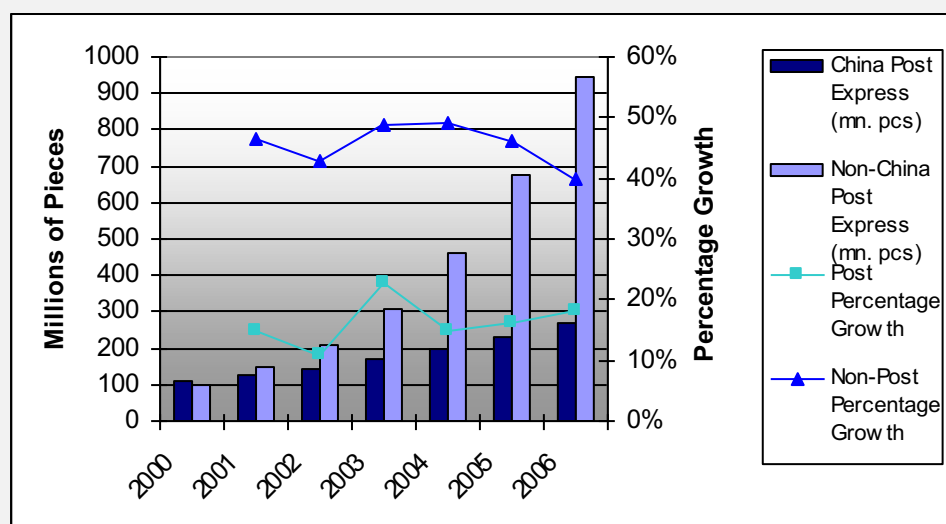


7.7 Growth in the Express Market

In 2006 China's recorded GDP figure exceeded CNY 20 trillion, reaching CNY 20.94 trillion, a year on year growth figure of 10.7 percent. Total logistics value for the society as a whole reached CNY 59.6bn, a year on year increase of 24 percent, of which the added value of the logistics industry is estimated to have been CNY 1.4 trillion, an increase of 12.5 percent.

Added value in the tertiary industry sector is estimated to have increased by 10.3 percent, while business revenue within the express delivery sector grew by 25 percent over the corresponding period, 14.7 percentage points higher than overall growth in the tertiary industry sector.

Figure 4: Volume of Express Mail 2000-2006



Source: China Federation of Logistics and Purchasing

**Table 1: Domestic Express Market**

Year	China Post Express (mn. pcs)	Post percent Growth	Non-China Post Express (mn. pcs)	Non-Post percent Growth	Total (mil. pcs)	Total Percentage Growth
2000	110.314		99.412		209.726	33.0 percent
2001	126.527	14.7	145.648	46.5	272.175	30.0 percent
2002	140.362	10.9	207.988	42.8	348.35	28.0 percent
2003	172.378	22.8	309.671	48.9	482.049	38.0 percent
2004	197.719	14.7	461.344	49.0	659.063	37.0 percent
2005	229.354	16.0	673.562	46.0	902.916	37.0 percent
2006	270.638	18.0	942.987	40.0	1213.625	34.4 percent

Source: China Federation of Logistics and Purchasing

In part due to the overall robust growth of the Chinese economy in all sectors, the express delivery sector has developed tremendously over the past few years. In 2006, the market size of China's domestic express delivery industry was estimated to have reached CNY 29.97bn, a growth rate exceeding that of both the national economy and tertiary industry sector. For that year, the growth rate for post express was 18 percent, for non-post express was 40 percent with a total growth rate of 34 percent and a market scale in excess of CNY 45bn. China Post EMS estimated 2006 revenues were CNY 7.5bn and estimates for the international express market reached revenue figures of over CNY 20bn.

In the period from 2005 to 2006, 404 new corporate enterprises entered the express delivery sector, an increase of 20 percent. Employment in the express delivery business grew 36.3 percent and business volume was up 22.4 percent. A study commissioned by the National Bureau of Statistics showed a direct correlation between GDP growth and the express industry, asserting that 1 percent growth in GDP corresponded to an approximate rise of 3 percent in the industry for the same period.

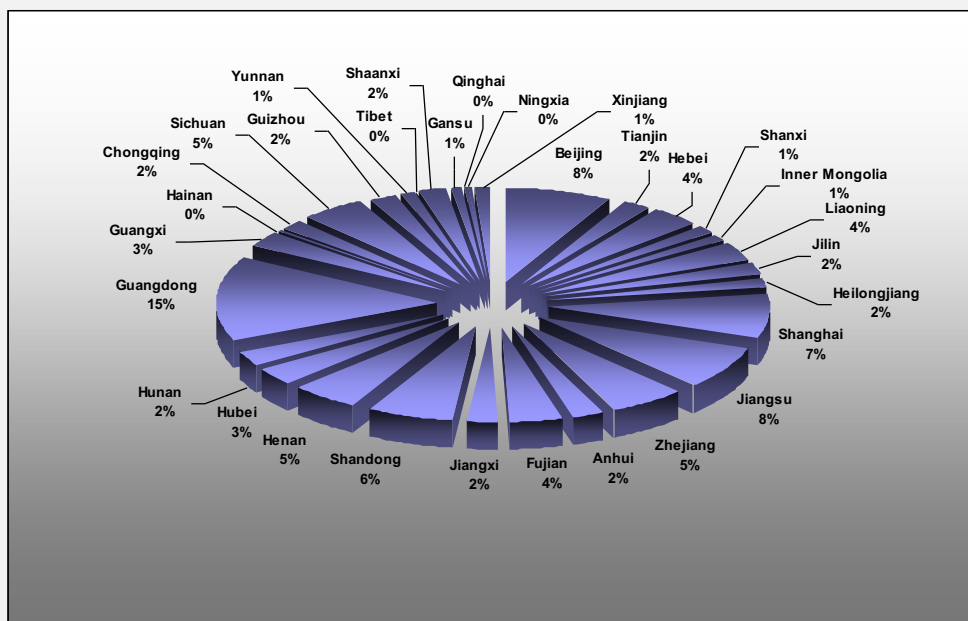
Over the past ten years, the Chinese economy has experienced unprecedented growth. The majority of economic forecasts agree that the export-driven manufacturing economy that has spawned this growth will likely continue for the next five to ten years.

Current government policies as outlined in the 11th five-year plan thus advocate continued push for development in both sectors. As the Pearl River Delta continues to produce most of the world's consumer goods, and as the Yangtze River Delta continues as the vanguard of tertiary development on the mainland, express delivery services can be expected to grow accordingly in these two regions. 2005-2009 forecasts estimate domestic growth rates of around 30 percent year on year and international growth rates at 39 percent year on year.



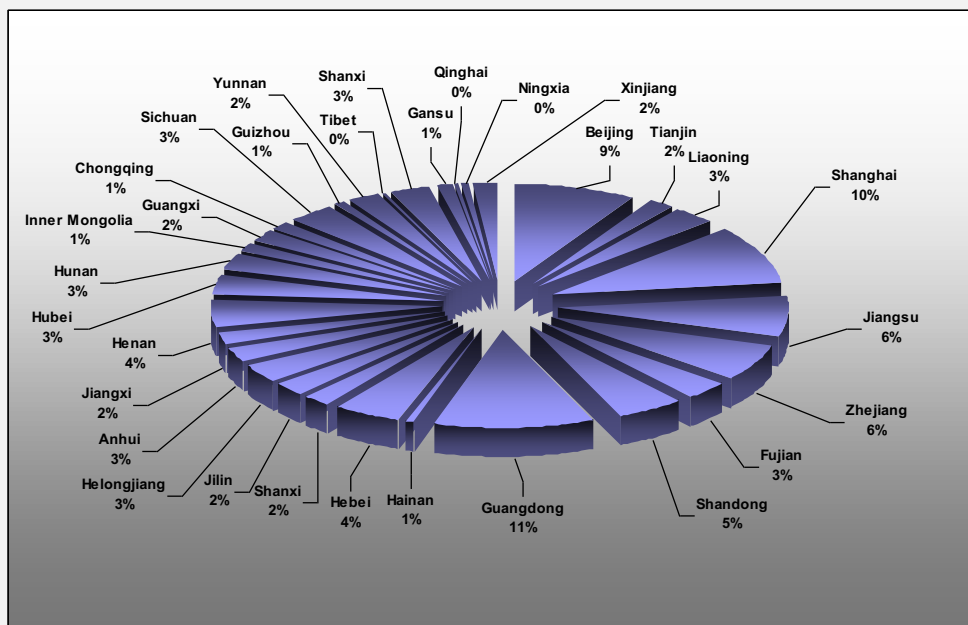
7.8 Regional Development

Figure 5: Express Volume by Province (China Post)



Source: China Statistical Yearbook 2007

Figure 6: Parcel Volume by Province (China Post)



Source: China Traffic Yearbook 2007



In general the bulk of demand for express services is still predominantly focused on the more economically developed Eastern Coastal regions, within this; the Bohai-Bay region, more specifically Tianjin-Beijing; the Yangtze River Delta including Shanghai and adjacent provinces of Zhejiang and Jiangsu; and the Pearl River Delta and the wider Guangdong region as a whole. Across this region, China's primary economic growth engine, are 400 small to large sized cities which lie at the heart of express delivery demand growth.





8 Road Transport

In 2005, road transportation saw stable growth. Its cargo transport volume was 13.3bn tonnes, turnover was CNY 857.4bn ton-km and the year-on-year growth for each was respectively 4.2 percent and 6.3 percent. In 2006, total freight volume in China increased by 9.1 percent and freight turnover volume increased by 12 percent. At the end of 2006, the composite index of general freight transport prices increased by 15.1 percent.

Table 2: Freight Rates 2005 to 2006

Freight Type	Dec-05	Dec-06	Comparative Growth Rate
FTL (CNY/tonne km)	0.25	0.2	25%
LTL Heavy Goods (CNY/tonne km)	0.36	0.33	90%
LTL Light Goods (CNY/tonne cubic meter)	0.12	0.1	20 %

Source: China Federation of Logistics and Purchasing

Table 2 shows the change in average prices of FTL, LTL Heavy Goods and LTL Light Goods for a one year period. At the end of 2006, FTL average transport price was CNY 0.25 per tonne, LTL Heavy Goods price was CNY 0.36 per tonne, LTL Light Goods average transport price was CNY 0.12 per tonne, which has increased a lot comparing with the prices at the beginning of 2006. The FTL average prices increased most with year-on-year growth of 25 percent, LTL Light Goods average prices increased on a year-on-year growth of 20 percent, LTL Heavy Goods average price increased by 90 percent.

The transport prices increases were caused by fuel price and the fees of quantification of highway freight. The fuel price has caused the transport prices to rise by 17.4 percent, and the fees of quantification of highway freight have also caused the transport prices to rise by 82.6 percent.

Over the past few years, the government has been cracking down on overweight vehicles and enforcing weight restriction. This campaign has proven to be the most effective policy for governance of overloading in a decade. Along with the extension of highway weight fees, in general overweight freight is becoming a thing of the past with the introduction of standardized long-distance cargo trucks becoming more and more popular.

The percentage of tractor trailers on the roads has continued to increase over the past two years. For the first three quarters of 2006, year-on-year growth of tractor trailers sales was over 50 percent. All of this has helped to reduce the number of overweight vehicles on the road; however, some drivers still try to circumvent the law through a number of measures. There is an illegal trade in security seals and documentation and some individuals at government ministries sell truck drivers and companies information on the dates of crackdowns.



The policy has resulted in increased profits for road owners. Taking the expressway between Jiangxi Province and Guangdong Province as an example, since the weight policy was carried out, road profits have increased 35 percent. At the same time though, this has cut into the profits of road transport operators





8.1 Labour

Whilst estimates for the total number of workers engaged in the express delivery sector range in as high as 1m (although this figure includes express business, e-commerce distribution and certain sectors of the distribution logistics sector), it appears from State Post Office Bureau figures that the vast bulk of this number is absorbed by small to very small enterprises.

These enterprises are typically characterised as either semi-informal or 'family' style businesses. While figures exist for the urban road transport sector, no secondary source statistical metrics specifically target express road transportation.

Figure 12: Road Transport Average Wages

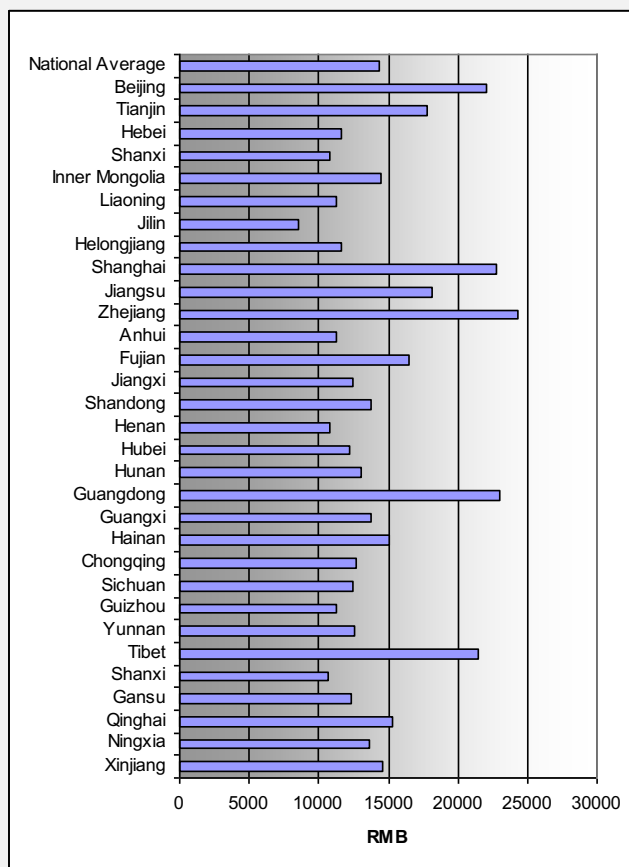
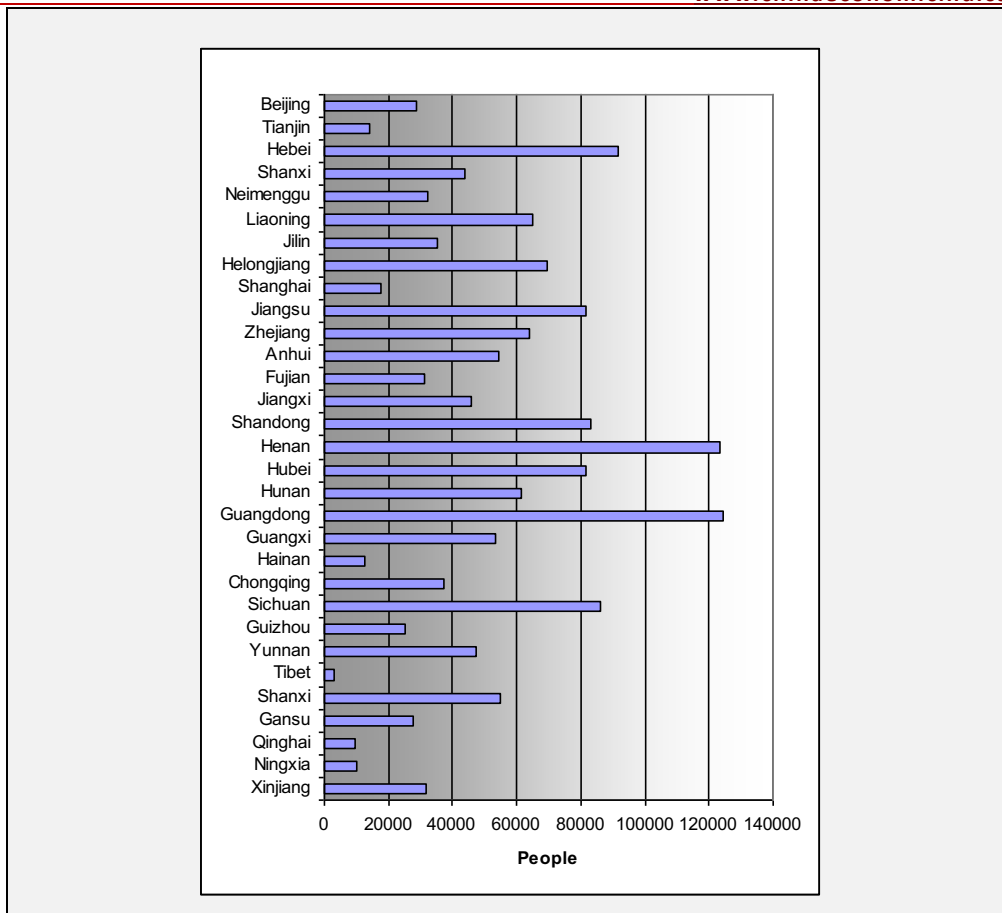


Figure 13: Road Transport Workers



Average wages for workers in the road transport industry were highest in the more economically developed regions with Tibet as an outlier presumably due to its harsh environment. Similarly, the average number of people employed in the industry follows economic development and populations centres. Henan stands out perhaps due to its strong manufacturing. Primary research indicated that the average salaries for road transport companies involved in express delivery matched or exceeded the respective regional averages

On the whole, wages of workers in express delivery tend to be higher those of general road transport. Taking Guangdong as an example the average wage for road transport workers is 1,919 per month, whereas express drivers make from 3,000 to 5,000 per month, depending on bonuses.

Out of the tens of thousands of private express companies in China, the composition of the work force is made up of approximately 30 percent laid-off workers from urban areas and more than 50 percent migrant workers that come to urban areas from the countryside to earn better wages. This means that upwards of 500,000 migrant workers are employed by private express businesses nationwide.

The rigid division between urban and rural citizen traces back to the early development strategies of Mao and continue to affect the society to this day. Urban dwellers have traditionally had much higher standards of living compared to those in rural areas so rural residents have naturally gravitated towards the cities to seek higher wages.

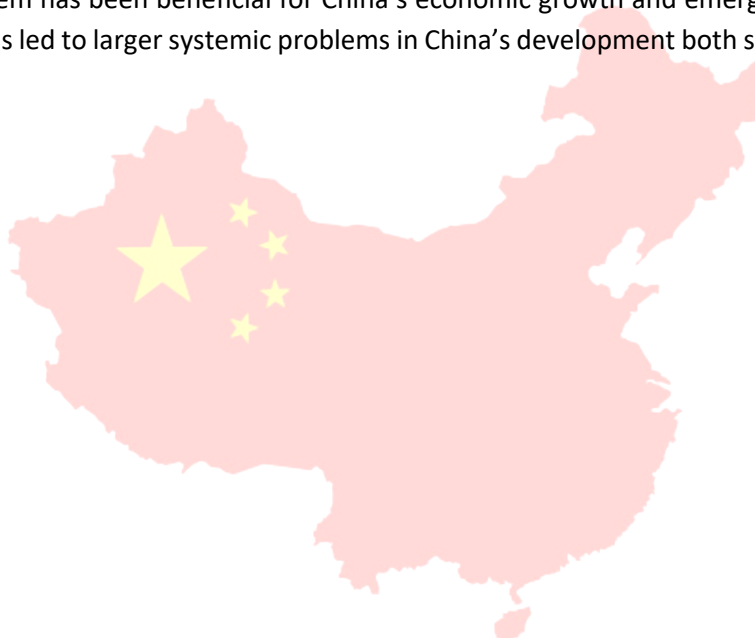


As a result, the government introduced the *hukou* system in an effort to decrease urbanisation. The government has a long history of utilising this system to exploit the one natural resource that the nation has in abundance—human labour. Although the economic dynamism witnessed in China over the past twenty years owes its growth to a number of factors, the nation's competitive advantage in the world market is cheap labour.

For better or worse, the *hukou* system functions to provide a seemingly endless supply of cheap rural labour to the economically developed urban centres for manufacturing and tertiary sector jobs. Moreover, these migrants' labour put little strain on the urban economies since they have no legal access to social services, such as healthcare, public schools, a social-safety net, pensions, housing, etc..

One reason that most other nations cannot compete with the 'China price' is they have to factor these externalities into their cost of labour. Ultimately though, this system benefits rapid and competitive economic growth.

Although this system has been beneficial for China's economic growth and emergence as the factory for the world, it has led to larger systemic problems in China's development both social and economic.





9 WTO Deregulation and the Effect and Implications of Foreign Investment

China's logistics industry completely opened to the outside world at the end of 2005 and since then the four express giants have accelerated expansion in the Chinese market through setting up wholly foreign funded enterprises. At present, they control 80 percent of China's international express delivery market.

Foreign direct investment has played an essential role in the development of international express, shipping and the logistics business. Overall, foreign logistics enterprises mainly serve foreign investors, of which 98 percent are solely foreign-funded or Sino-foreign funded enterprises, while local logistics enterprises mainly serve domestic clients on the middle level and low-end markets.

Generally speaking the government's view on foreign investment in the sector is positive. Whilst as with most sectors of the Chinese economy Beijing is keen to protect its domestic industry, it sees the continued development of the express sector as essential to the continued smooth development of the economy and sees the benefits of recent trends in foreign investment as outweighing the drawbacks. However, the National Development and Reform Commission (NDRC) have highlighted areas it believes to be of concern.

In 2006, the NDRC and CFLP issued a joint report on Entitled Effect of, and Policy Proposals for Foreign Investment Entering China's Logistics Industry. The report proposed the following policies and suggestions for policy making departments to reference:

1. Relevant government departments must pay great attention to the importance of foreign capital entering the Chinese logistics industry.
2. Relevant government departments should consider making amendments to outdated laws and regulations in the logistics field and formulating necessary regulation. After joining the WTO, it is still necessary for the Chinese government to regulate the logistics industry, on one hand, to prevent foreign-funded enterprises gaining a monopoly in some areas, thus obtaining excessive profits; on the other hand, to prevent foreign-funded enterprises from destroying the medium-small logistics enterprises via predatory pricing.
3. The government intends to accelerate merging of 'the two tax systems' (foreign and domestic enterprises tax policy) to establish a fair competitive environment.
4. Strengthen statistical work on foreign capital entering the Chinese logistics industry as well as strengthen tracking and monitoring of statistical analysis after foreign capital enters the Chinese logistics industry.
5. Concentrate on trends in the global industry to improve the Chinese logistics industry's international division of labour.
6. The government should play a more active role in promoting logistics related trade associations.



7. Implementation of the 11th Five-Year' Plan's section on the development of modern logistics industry, further strengthening the efforts made by the government to form vertical and horizontal relationships.
8. The government should advocate and strengthen the core concept of third-party logistics. It should also support third-party logistics enterprises and support inter-regional and cross-industry logistics-related service systems. In order to support the development of the third-party logistics, the government should also consider providing discounted loans and strengthening logistics park planning.
9. The government should set up a special fund to nurture the development of home-grown logistics talent.
10. Approve related enterprises, including foreign investors, to establish a "China Logistics Industry Development Fund." The government should also encourage public listings in domestic or foreign markets in order to encourage and guide key areas of the developing logistics industry for market-oriented operation.

Whilst keen to promote development of the sector through foreign investment and the increased competition that entails, the central government is also extremely anxious to "prevent foreign-funded enterprises gaining a monopoly in some areas, thus obtaining excessive profits; on the other hand, to prevent foreign-funded enterprises from destroying the medium to small logistics enterprises via predatory pricing."

In a sector which provides a tremendous amount of employment for those worst hit by China's modernisation – former state owned enterprise (SOE) employees – this seems to be a legitimate concern. However given the often heavy handed nature of legislation in China, coupled with the overt conflicts of interest apparent within the legislative body, recent drafts of proposed legislation to regulate the industry – i.e. the Postal Reform Bill - have met with significant opposition from foreign invested enterprises.



10 Government Policy

The current 11th Five Year Plan is the first to designate the express delivery industry as a priority for development. The plan confirmed that the express industry was instrumental to the development of optimal resources allocation.

The overall lack of standardisation across the industry is undoubtedly one of the driving forces behind the unveiling this year of industry wide standards to be adopted on January 1st 2008. The new standards, approved in August of this year, seek to impose standards across a swath of industry levels, including upper time limits for domestic and international express, employee numbers, nationally recognised vocational qualification standards, lost item compensation standards, as well as single parcel weight definitions and formal express delivery credentials issued by the relevant Ministry of Communications offices.

These standards include the following:

- An organisation engaging in express service shall have a staff of no less than 15 people except for circumstances of having a special agreement with the client, e.g., delivering to a remote places.
- The time limit is no more than 24 hours for express service in the same city and no more than 72 hours for non-local service.
- Express service organisations (headquarters) should acquire corporate enterprise credentials when registered at the Industrial and Commercial Administrative Organisation.
- Express Service enterprises should organise and encourage their production personnel to acquire corresponding national vocational qualification certificates and should only allow staff to work at positions with corresponding national vocational qualifications.
- The weight of a single parcel is no more than 50 kilograms.
- The dimension of each side of the single package for each consignment is no longer than 150cm and the sum of the length, width and height is no more than 300cm.
- Express service organisations should attempt to deliver the package at least twice.
- Service costs should be developed in accordance with the State Price Provisions.
- Express service organisations should not collude, manipulate the market price, damage others operators or exploit the rights and interests of the consumers.
- The total delay time for intra-city delivery is limited to three calendar days
- The total delay time for inter-city delivery is limited to seven calendar days
- The total delay time for international express delivery is limited to ten calendar days.



Whilst these standards appear to be industry wide in scope there remains a scepticism as to how these new regulations would indeed be implemented across the vast bulk of the sector where small scale, personal networks function. In practice, implementation is much more likely to focus on larger scale enterprises with wider national and international networks and higher levels of registered capital.

One major issue of concern for these smaller enterprises is the forthcoming provision within the legislation that limits the number of employees for express delivery firms to a minimum of fifteen. If rigorously applied the upcoming measures would essentially cripple smaller outfits. It is perhaps for this reason that many such outfits believe the proposed measures will remain, as much legislation does in China, on paper.

Others believe that even given implementation of the new rules enforcement will remain a major loophole for those wishing to continue operating in their current business modes. Considering how many people the industry employs, this condition would likely have sporadic enforcement at best due to unrest that it might cause.





11 E-Commerce Logistics Demand

The development of online payment systems and logistics networks has facilitated the development of e-commerce in recent years. According to government statistics the total number of Chinese internet users exceeded 130m by the end of last year.

Table 3: Consumer Volume

Year	Total Consumer Volume (1 trillion CNY)	Percentage Growth*	Online Shopping Volume (1bn CNY)	Percentage Growth**
2002	4.8	11.80 percent	1.8	*
2003	5.3	9.10 percent	4.0	122.20 percent
2004	6	13.30 percent	8.1	102.50 percent
2005	6.7	12.90 percent	19.3	138.30 percent
2006	7.6	13.70 percent	31.2	61.70 percent

Source: Taobao

In the third quarter of 2006, the average amount that each person spent on online shopping was CNY 572, an increase of 109 percent over the corresponding period the previous year. In the third quarter of 2005 the average amount spent on online shopping was CNY 273. Over the past 4 years, percentage growth in consumer spending online has dramatically outpaced total consumer spending growth.

In 2006, third quarter C to C online transactions amounted to CNY 43.5bn, more than the annual transaction value of CNY 41.6bn in 2004 of the entire Chinese C to C market.

After resolving online payment security issues, e-commerce providers have realised that the major obstacle to development is logistics.



In order to improve services and efficiency Alibaba decided to work with China Post after consulting a number of different express logistics providers. They chose China Post because its extensive network and service.

A wholly owned subsidiary of Alibaba, Taobao, is the main rival to e-bay in China, providing C to C and B to B services for Chinese internet users. It is the largest e-commerce website in Asia with approximately 40m registered users.





Table 3: Popularity of Items Sold on Taobao (First half of 2007)

Rank	Item	Number of Transactions (units sold)	Rank change vs 2006
1	Mobile phone	1.4mn	--
2	Household commodities	6.5mn	↑10
3	Cosmetics	11.5mn	↓1
4	Notebook computer	500,000	↓1
5	Mobile phone recharge card	6mn	↑4
6	Computer hardware	2mn	↓1
7	Coat	6mn	↑4
8	Camera	800,000	↓2
9	Exercise equipment	3.5mn	↓1
10	Food	3mn	↑3

Source: Taobao

Taobao's transaction volume for the first half of year 2007 was over CNY 15.7bn; approaching its total figure for 2006, CNY 16.9bn. The current number of registered users reached 39.9m in June of 2007. Whilst users are mainly concentrated in urban centres the company sees great potential for expansion as the internet extends its reach in China. The company boasts approximately 75m online product listings on Taobao per day.

Below are the recommended logistics partners for Taobao:

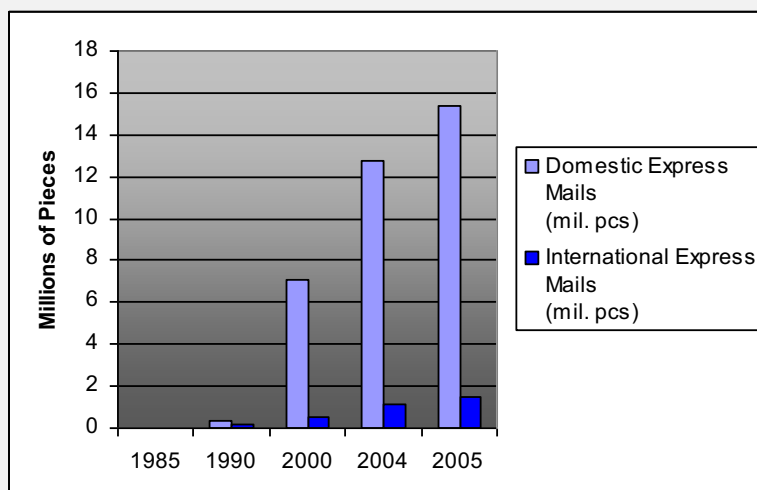
- E-Youbao
- EMS
- Shentong E-logistics
- YTO Express
- ZJS
- Yunda Express



12 Case Studies- Yangtze River Delta

12.1 Key Data

Figure 14: Shanghai Express Volume (China Post)



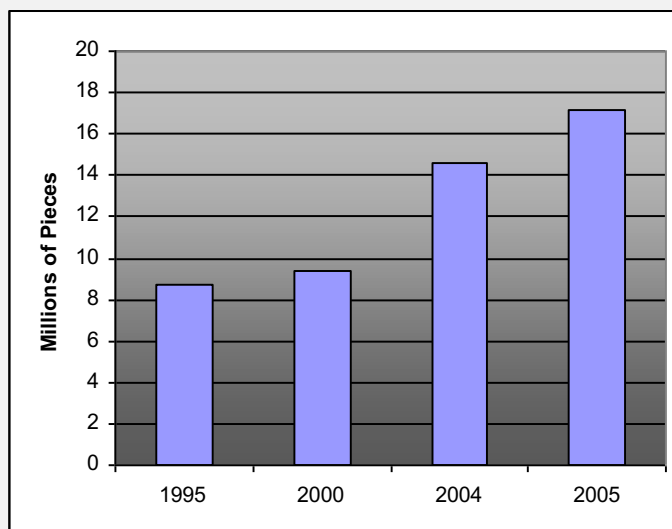
Shanghai Historical Volume

	1985	1990	2000	2004	2005
Letters (mil. pcs)	219	296	461	600	708
Domestic Express Mails (mil. pcs)	0.0023	0.33	7.099	12.725	15.412
International Express Mails (mil. pcs)	0.0197	0.15	.52.1	1.159	1.443

Source: Shanghai Statistical Yearbook: n.b these figures indicate China Post figure only, hence given that CIG estimates China Post to have around a 28 percent market share in Yangtze River Delta in 2005 these figures can be used to estimate approximate market volume distributions within regions.



Figure 15: Jiangsu Express Volume (China Post)



Jiangsu Historical Volume

	1995	2000	2004	2005
Parcels (mil. pcs)	16.19	5.43	6.3677	6.1014
Specail Express (mil. pcs)	8.7	9.3857	14.64	17.1924
Letters (mil. pcs)	531	574	442	421

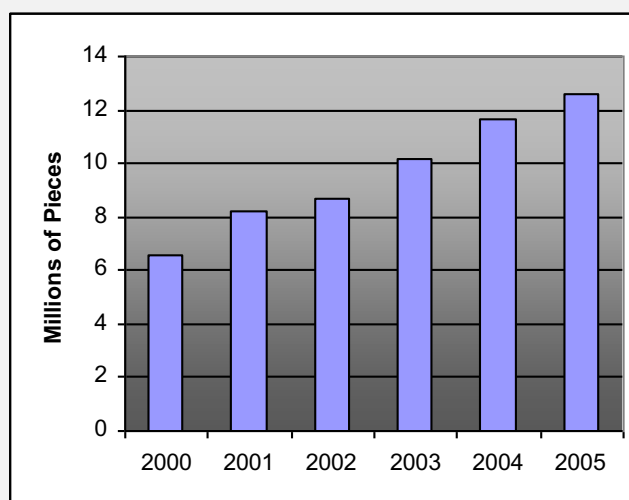
Jiangsu Per Capita

	2000	2003	2004	2005
Average Number of Letter Mailed (Unit/100 persons)	812	660.29	594.79	563.25
Average Number of Parcels (Unit/100 persons)	7.6	9.06	8.57	8.16

Source: Jaingsu Statistical Yearbook: n.b these figures indicate China Post figure only, hence given that CIG estimates China Post to have around a 28 percent market share in Yangtze River Delta in 2005 these figures can be used to estimate approximate market volume distributions within regions.



Figure16: Zhejiang Express Volume (China Post)



Zhejiang Historical Volume

Years	Number of Letters (mil. pcs)	Express Mail Services (mil pcs)
1995	386.78	2.89
1996	909.55	3.9
1997	982.07	3.92
1998	1027.61	4.36
1999	1076.83	5.37
2000	1068.07	6.54
2001	1161.56	8.24
2002	1147.07	8.66
2003	1169.53	10.14
2004	1104.17	11.64
2005	1124.17	12.56

Zhejiang Per Capita

	1995	2004	2005
Average Number of Letters Mailed (pieces/100 persons)	882.7	1626.2	1426
Average Number of Parcels (pieces/100 persons)	16.3	13.4	12

Source: Zhejiang Statistical Yearbook 2006: n.b these figures indicate China Post figure only, hence given that CIG estimates China Post to have around a 28 percent market share in Yangtze River Delta in 2005 these figures can be used to estimate approximate market volume distributions within regions.



12.2 STO Logistics (Shentong Express and Shentong E-logistics)

Founded in Hangzhou in 1993, STO is privately owned and has grown organically from a family run business model into a nationwide firm. The company offers freight transport, express delivery and a range of third-party logistics solutions. It does not publish any public finance reports, but processes roughly 200m consignments each year, or around 600,000 consignments per day, and estimates an annual revenue figure in 2006 of CNY 300m.

Overall accounting for the company as a whole is not available as branch companies maintain a level of financial autonomy; branch offices are required to pay a management fee and a percentage of their profits to corporate headquarters but are responsible for their own internal accounting. STO has witnessed 20-30 percent year on year growth over the past few years and expects to witness increased growth in future as a result of its relationship with Taobao - the online shopping website.

Shentong E-logistics is included in Shentong Traditional Express Services and is designed to serve Taobao and other e-commerce fields. It is a specially developed service product and runs relatively independently of their traditional express network in aspects of customer service, services standards, and after-sales service.

Regular express delivery service is the most profitable and fastest growing sector of business for the company. While e-commerce delivery is growing relatively slower than regular express delivery demand, the company believes that it has the greatest potential over the next five to ten years.

Letters and documents account for 70 percent of the company's overall express traffic with parcels accounting for 30 percent. 100 percent of traffic volume originates from the domestic market with approximately 10 percent coming from Shanghai and a large portion from the Zhejiang and Jiangsu region. 10 to 20 percent of the traffic is destined for Shanghai, approximately 30 percent destined for the Pearl River Delta Region, with the remainder bound for other areas in the mainland, Taiwan and Korea.

The average parcel weight is one kg. The maximum weight for packages is 100kg because there are no transit points capable of unloading anything heavier than 100kg. The company does not set fixed prices, but rather attempts to cover its logistics charges so that it can remain flexible and adjust to changes in the market.

Due to the franchised nature of the business model, the total number of people employed under the name STO is unknown, however estimates run at 30,000 throughout the entirety of STO, out of which 500 to 600 are directly employed by the parent company. Aside from logistics provision, the parent company's main function is to provide national logistics information to its branches. Both the IT and customer service are taken care of in-house.

The company as a whole operates about 50 – 60 sorting hubs throughout China. The vast majority of these are located in developed second-tier cities in Zhejiang and Jiangsu Provinces. It also has one hub located in Dongguan Guangdong, another in Weifang Shandong, and a number of other smaller ones scattered throughout inland cities. Of these, about fifty also operate as pickup and delivery depots; all



are owned by the parent company or its affiliates although most are operated by branch companies. The details of dispatch operations vary from branch to branch.

The parent company mainly uses box trailers all of which are equipped with GPRS. In total, the parent company employs over 180 drivers in the major areas of Shanghai, Jiangsu and Zhejiang - all contracted on fixed salaries.

The company mainly offers services in mainland China, though it is now developing relationships with Korean companies and has plans to expand its reach into Southeast Asia and Russia. Though the statistics are incomplete, STO has approximately 1,200 branches throughout China.

STO's business is mainly day definite (deferred/economy). It currently offers express delivery within the same city, but there is no specific time definite service; however, if orders come in and fit into its transport schedule, it can expedite delivery. It also provides COD services available on all deliveries. It is not involved in warehousing at the moment, but has plans to do so. Although it does not provide any customised logistics solutions to its express customers, it does for its branch offices, or for large enterprises.

STO also offers air service and cooperates with various airlines to do so depending on the flight schedules and cost.

STO experienced difficulties in early 1990s, when rules were issued by the State Postal Bureau discriminating against private express companies and faced a number of stiff fines. DHL considered purchasing the company two years ago, but the deal fell through after the general manager of DHL was replaced.

The company primarily relies on an established client base with little invested in sales. It has a small sales force consisting of only a few people at some of the branch offices.

Its top clients are Tyco Electronics, Digital China, Carrefour, General Motors Parts, Acer Computers, and Mitsubishi Elevator. A small percentage of business comes from other customers in the following industries: automotive, consumer goods, high-tech products, food and beverages, chemicals, pharmaceuticals, and luxury goods.

Its top competitor is SF which is well-established in Guangdong, Central China, and Beijing.



12.3 Shanghai Shunjie Logistics

Annual business revenue is around CNY 60-80m. This figure comprises warehousing and road transport, a slight growth over the previous year. At present the company has around 120 employees. The company has grown under the effort of its own investment and has made no acquisition or mergers to facilitate development.

The company currently offers both FTL and LTL services as well as warehousing, sorting and packing, COD. A small percentage of their fleet is equipped with GPS.

The company itself operates only one collection and deliver centre which functions as their distribution centre for LTL business and is located in Shanghai. The company primarily operates on the expressway network as this is safer than the national highways. Around 5 percent of the company's business is FTL. The company does not deal with requests for air cargo.

Average transport times for the national market are around three days, whilst within the local market the company deliver the same day and quote 4 hours as the standard delivery time. The company identifies its idle season as June to August, and February to March.

The company does not provide individual parcel services and primarily deals with general road transport of large consignments. For this the company operates 53 vehicles most of which are vans, five of which are equipped to deal with hazardous chemicals. All drivers are directly employed on a full-time basis. The company does not provide individual parcel services and so employs no couriers.

90 percent of the company's cargo remains within the Shanghai or Yangtze River Delta region. 10 percent is destined for the wider national market. 90 percent of the company's clients are Shanghai based companies, many of which are international enterprises. These companies include Toyota, Ingram, General Technology (Tonnegong) Pharmaceutical.

In 2006 machine, machine parts and electrical machine fittings made up 15 percent of cargo, that figure has remained the same this year. Auto parts made up 10 percent of cargo in 2006, but this has risen in 2007 to 20 percent. Chemicals and cosmetics made up 35 percent of business in 2006, but have fallen to 30 percent this year. Computer equipment made up 50 percent of cargo in 2006, but has fallen to 35 percent this year.

Shunjie has a specialised in-house sales team of around 5 people, its own in-house IT department and its own customer service department.

The company sees its main rivals as Beifang and Chic Logistics. The company also identifies that there are a number of international road transport companies that are likely to become major competitors in the near future.

At present FTL accounts for around 10 percent of the company's business volume and LTL accounts for around 90 percent. LTL is generally cheaper for the company to operate. Average weight for consignments ranges from 20-30kg at the low end, primarily goods like cosmetics, up to 5 tonnes for large machines. In general, the company claim to make CNY 500 profit per consignment.



The company predicts its fastest growing revenue stream and most profitable sector is likely to be warehousing. This, the company predicts is because of the volatility of the transport market and its susceptibility to price fluctuations eroding profit margins.

The company identifies its main challenges as rising costs which are and have been eroding profit margins and a lack of regulation across the industry. The company contends that the first of these issues has meant that despite rising business volumes and revenue figures, profit has grown by a disproportionately small amount. The second of these problems cause issues that effect service quality.

In terms of market development for the future, the company hopes that the market will be better regulated in future, allowing companies to charge higher prices and provide better quality services.

Shanghai Shunjie is part of an alliance known as DCC, which as a group, has a network of over 200 agents across the country and operate four distribution centres located in Shanghai, Beijing, Shenzhen and Guangzhou. Collectively the group's revenue figure for 2006 reached CNY 150mn.

All together the entire group operated 250 vehicles and employed 400 people in 2006. This network combines to give the members of the alliance national coverage.





12.4 SBF Logistics Shanghai Beifang

Shanghai Beifang is a private company, founded in 1989, and primarily provides warehousing and road transport services, dangerous goods transport, customs clearance, sorting and packaging, and warehouse repairing. Beifang also provide hazmat warehousing and bonded freight. Last year's annual revenue reached CNY 480m whilst average yearly growth is about 20-30 percent and the company employs 800 people.

Transportation and distribution, warehousing, and supply-chain management are the company primary services. For transportation and distribution the company offers: receiving of goods, quality inspection, loading and unloading, processing, sorting, FTL / LTL, and transport of dangerous goods. For warehousing it provides: import distribution, export transshipment, export processing, commodities exhibitions, export distributing, warehousing for general bonded goods, and warehousing of bonded dangerous goods.

In supply chain management it offers: inland and overseas outsourcing, import customs declaration, kitting, quality inspection, packing, processing, sales, equipment and transportation of raw materials, customs declaration, taxation issues, inland transportation, international freight forwarding, international multimodal transportation of finished goods, and reverse logistics. The company can provide COD services but only for small amounts.

The company owns all eight branches in Shanghai, has 60 franchises outside of the city and a network of approximately 1000 pick up and delivery depots. The parent company handles roughly 30 percent of the total business. The company processes consignments with weights ranging from a few kilos up to several tonnes.

At present its LTL business volume outpaces FTL. The company provides both long and short distance road transportation, but its strategy is to focus on short distance, which it sees as more profitable. Although it will accept long distance jobs when business is down, it tries to minimise this and focus on regular routes with an average 2 to 3 hours. Long distance routes like those to Tibet and Xinjiang take from a week to two weeks and require teams to complete the drive.

SBF has warehouses for common goods, dangerous goods, and bonded goods. At present the company owns 160,000 square metres of warehousing in Shanghai and 20,000 square metres outside of Shanghai, all totaling 180,000 square metres.

The company is in the process of building a bonded logistics centre with 300,000 square metres. Currently, 140,000 thousand square metres of warehouse space is located along Shanghai's main transportation arteries with locations at Shanghai Northwest Logistics park Wuwei base, Shanghai Huangdu District Xiechun Road Logistics base, Shanghai Nanxiang District Changxiang Road Logistics base, Shanghai Pudong Zhangjiang and the High Tech Industry Park Logistics base.

All of these centres are capable of providing the following services: receiving, sorting, packing, returned goods and order management, repacking, batch control, sequence control, labelling, bar-coding, palletisation, quality inspection, and FIFO.



SBF operates a fleet of 300 freight vehicles, consisting of box trucks, container trucks and semi-trailers. 20 are large scale flatbed trucks capable of carrying oversized heavy goods, 100 are customs supervised vehicles, 60 are vehicles for dangerous goods, and 60 are containerised vehicles.

All of the company's vehicles are equipped with GPS. Information of freight en route can be obtained through the companies IMS system, offering real-time tracking of goods. The fleet is equipped to deal with dangerous goods, chemical goods, and temperature sensitive items.

SBF has also developed a software management system for 3PL providers. The management system includes three modules: an operations management system, an enterprise management system, a customer services and e-business system. Subsystems for the Logistics Operations Management Systems include: Warehouse Management System, Transportation Management System, Forwarding Management System, Outsourcing Management System, Customs Declaration Management System, and Data Interchange Management System. The Enterprise Management System subsystems include: Contract Management System, Customer Relationship Management System, Financial Management System, and Administration Management System. For the Customer Service E-Business System, subsystems include: Online Inventory Enquiry, Cargo On-way Information Enquiry, and Information Feedback (for customers' suggestions and complaints, data interchange, business data, statistical gathering, etc.).

The company identifies the general road transport sector of their business as the most profitable and fastest growing business stream. However, the company does identify the fact that supply chain management is likely to be an area of major growth in the near future, given Chinese enterprises lack of experience in the area. Its main source of profits comes from road transportation which accounts for 70 percent of the total, warehousing accounts for 20 percent and the remaining 10 percent comes from other supply chain management services.

Although most of its customers are foreign owned firms or joint-ventures the companies 90 percent of the companies business focuses only on the domestic market. It has relationships with businesses such as, Mitsubishi, Alcatel, SSCI, Johnson, Philips, Carrier, 3m, Dupont, Jahwa, Toyo Tires, Fedders Shanghai Co., Ltd, China Putian Information Group Company, China Telecom, Rohm Haas, Nippon, LG, Akso Nobel, Cannon, Honeywell and Dell. Business from large clients such as these generates 36 to 40 percent of its revenue. Most of the cargo consists of consumer goods, chemical goods, dangerous goods, automotive goods, foods and beverage. It also provides transport for highly toxic goods, but does not have the certificates required for medicines.



12.5 CNEX Express (Jiaji Express)

Established in 1994, CNEX Express focuses mainly on road transportation and 3PL solutions. With a growth rate of roughly 30 percent year on year since 2005 and nearly 10,000 employees, and a large fleet of company owned vehicles, CNEX has grown from its base in Shanghai to become one of the major players in the road transport market. Revenues for 2005 and 2006 were in excess of CNY 1bn.

CNEX offers a wide range of services including: door-to-door delivery, warehousing services (sorting, packing, and other logistics management solutions), distribution services (inter-city, inter-regional, inter-business networks), online tracking service, tracking of goods in transit via GPS, and multi-modal transport (road, rail, and air). It provides said services for both FTL and LTL (including individual parcels and consignments). CNEX offers insurance services and will provide immediate compensation for damaged or lost goods. Yearly estimates for insured cargo run as high as CNY 3.5bn.

The company provides a wide range of payment options including, cash, COD, payment through bank transfers, monthly billing, and semi-monthly billing. In addition, the company provides an SMS service to inform clients of the receipt of payment on behalf of the third parties for e-commerce.

CNEX Express was one of the first logistics companies to effectively integrate IT systems into its logistics business. As one of the earlier Chinese companies to do so, it has become one of the distinguishing features of its business model. It operates a 24-hour Dispatch Centre and through the use of GPS, offers a national real-time delivery tracking system. It also provides WMS, ERP, and CRM solutions.

Headquartered in Shanghai, CNEX operates a large logistics centre with transportation, distribution, and warehousing facilities covering an area of 38,000 square metres. In the past two years CNEX has already set up establishments in over 200 cities, extending its coverage to the township level in eastern coast regions and most major first and second tier cities in the developing Central and Western regions. The company subcontracts for air and sea transport.

Represented in every province, the company's network of nearly 1000 affiliates extends across the whole of the country. It has set up a national cargo transportation network with Shanghai, Tianjin, Guangzhou, Wuhan and Xi'an as the hubs.

The East China network, centred in Shanghai, covers Jiangsu, Zhejiang, Anhui and Fujian. The South China network, operating from 20,000 square metre Guangzhou hub, covers the PRD, Hainan, Guangxi, Yunnan and Guizhou. The North China network, operating from the 25,000 square metre Tianjin hub, covers Beijing, Tianjin, Hebei, Shandong, Liaoning, Jilin, Heilongjiang, and Inner Mongolia. The Central and Southwest China network, operating from the 15,000 square metre Wuhan hub, covers Hunan, Henan, Sichuan, Chengdu, Hubei and Jiangxi. The Northwest network, operating from the 10,000 square metre Xi'an hub, covers Sha'anxi, Gansu, Ningxia, Qinghai, and Tibet.

The company has more than 3,000 trucks, 95 percent of which are box trucks. 1,200 are dedicated to long-distance delivery, 1,800 to inter-city delivery. In 2006 throughput for the YRD was approximately 5,500 tonnes per day; 2,390 tonnes per day in the south; 3,100 tonnes per day in the north. The company will not transport items above 12 metres in length, 2.7 metres in height and 2.4 metres in width.



Supporting a diverse range of clients from the automotive, consumer goods, high-tech, and food and beverage industry, the company serves major a number of major domestic and international companies. The clients include, ABB; HP, Philips, Kodak, Lenovo, Midea, PCI, Start, Goldline, Hedy, KFC, Epson; Kodak, Philips, Budweiser, and the Huiren Group.





13 Case Studies- Pearl River Delta

13.1 Key Data

Figure 177: Guangzhou Volume Distribution (China Post)

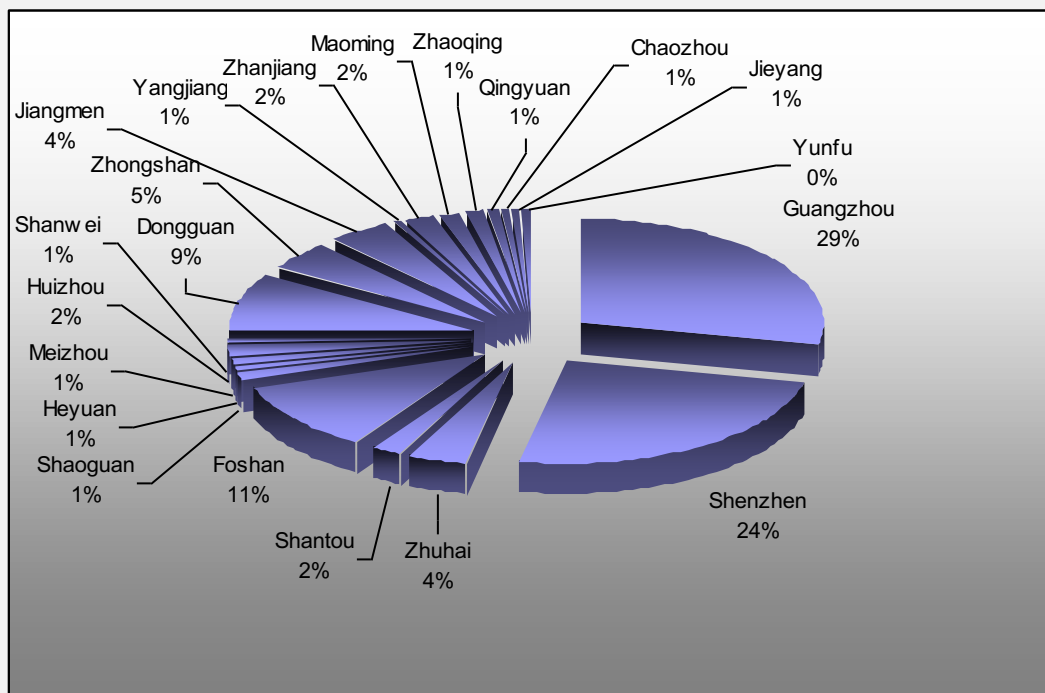


Table 5: Express Mail Volume by City (China Post)

City	Pieces of Express Mail Services (mil. pcs)	City	Pieces of Express Mail Services (mil. pcs)
Total	33.283	Dongguan	2.922
Guangzhou	9.551	Zhongshan	1.515
Shenzhen	8.075	Jiangmen	1.365
Zhuhai	1.372	Yangjiang	0.235
Shantou	0.605	Zhanjiang	0.596
Foshan	3.636	Maoming	0.509
Shaoguan	0.338	Zhaoqing	0.35
Heyuan	0.202	Qingyuan	0.236
Meizhou	0.325	Chaozhou	0.188

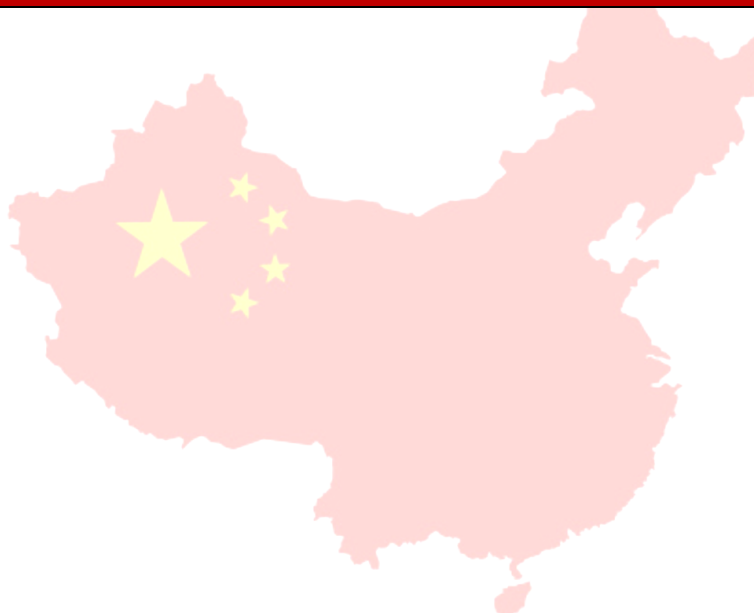


	Huizhou	0.696		Jieyang	0.233	
	Shanwei	0.169		Yunfu	0.166	

Table 6: Guangdong Historical Volume (China Post)

Type	1990	1995	2000	2004	2005
Pieces of Express Mail Services (mn. pcs)	1.244	6.873	13.278	26.894	33.283
Number of Letters (mn.pcs)	471.88	985.35	1066.03	1067.31	912.67

Source: Guangdong Statistical Yearbook 2006: n.b these figures indicate China Post figure only, hence given that CIG estimates China Post to have around a 12 percent market share in Guangdong in 2005 these figures can be used to estimate approximate market volume distributions within regions.





13.2 HYC Guangzhou

HYC, based in Guangzhou, reached a revenue figure last year of CNY 30m, averaging a growth rate over the past few years of around 30 percent. The company has many offices around the country including packing centres and employ around 1,500 staff including transport workers.

Almost all of these workers are directly employed by the company, save for a very small percentage of loaders that are indirectly employed. In the past few years HYC has grown under its own effort of investment and has made no mergers or acquisitions.

The primary services offered by the company include road transport and warehousing. Among the secondary services that the company offers is packing and sorting. This service the company primarily performs for Procter and Gamble. The company itself was first established as a packing company and later added its transport fleet and gradually evolved into a logistics company.

At present the company operates two packing centres, one in Guangzhou and one in Tianjin. Another secondary service the company offers is outsourcing of warehouse management and operation services. The company's main warehouses are located in Guangzhou and Shenzhen and cover an area of 60,000 square metres.

In terms of the company's core transport business the company offers LTL, FTL, express delivery and COD services, although the latter is for selected customers only. The company's main branches are located in Guangzhou, Shenzhen, and Wuhan, with agents operating in the Beijing-Tianjin region, Shanghai, and Wuhan.

The company does not operate a centralised sorting hub. The company does, at present, offer limited express delivery services to some of its larger clients but the volume is low and not available to the general public. When dealing with general requests for express delivery the company will utilise dedicated express delivery providers, with which they have pre-existing cooperative agreements.

The company operates a large number of collection and distribution centres mainly located throughout the PRD as most of their business originates in Guangzhou, Shenzhen, the wider PRD, and southern China respectively in terms of volume. At present the company operates three warehouses in the Guangzhou Huangpu Development Zone, one of which is rented from Zhilian, the others wholly owned; the most modern of which covers 20,000 square metres. The company also has two warehouses located in Shenzhen. The company intends to extend its ownership of wholly owned warehouses as these leases expire.

Almost all of the company's entire transport fleet is equipped with GPS as well as alarm systems and the company also operates an automated TMS (transport management system) and WMS (warehouse management system).

In terms of revenue streams, HYC confirmed that their primary focus at present is warehousing which has experienced the fastest growth rate over the past few years. Major warehousing clients for the company include large scale electrical goods manufacturers like Jabil Circuit, and Haier.



HYC at present own and operate a fleet of 130 vehicles. This fleet breaks down to 80 trucks and 50 vans, with the trucks ranging from 3-30 tonnes. Half these trucks are enclosed and half are flatbed, none are containerised although some are fitted with hydraulic 'flying wings', in particular those utilised by auto industry customers, i.e. Dongfeng-Honda.

The number of drivers directly employed by the company is at present around 200 and all drivers directly employed by HYC are recruited and trained by the company in an in-house training facility before starting operation.

Despite mainly using directly employed drivers, the company does however use leased drivers and vehicles from contract logistics firms to extend its network especially in and around Beijing and Hebei Province.

There are literally thousands of such companies across China, making it relatively convenient for HYC to extend their business network without overbearing investment burdens on less popular lines. It is this subcontracting that makes it difficult for HYC to accurately calculate the exact number of drivers used in its operations. The company estimates that 60 percent of its road transport routes are covered by in-house vehicles while around 40 percent is subcontracted.

In some instances the company does offer air transport, in particular for Jabil Circuit, and under those circumstances uses Shanghai Airlines as an agent. All air transport is processed through this agent and the company does extend this service to the parcel segment of their business model.

In October of this year the road transport segment of the business turned over around CNY 10m. The company is unsure at present how that figure relates to profit but admit that the profitability of the road transport network is on average above ten percent.

In terms of business volume, around 70 percent of the company's total originates in Guangzhou, with the remainder spread nationwide, but with a considerable proportion of that originating in Shenzhen and the wider PRD. Only around 40 percent of the cargo originating in Guangzhou is delivered in the same city, with the remainder going to the wider Guangdong region, and a small percentage to the wider China area.

Of the cargo originating and destined for the Guangdong region the vast bulk is FTL. FTL therefore accounts for the majority of business of the company, whilst routes to wider China region tend to be LTL. On average, LTL accounts for 5-10 percent of total revenue of road transport division.

In general delivery times within the PRD take two to three hours given the relatively developed nature of the highway infrastructure in place. To destinations further afield, 1,200 km to Wuhan for instance, the company generally expects to be able to complete the route in no more than 16 hours, and on average around 13 to 14 hours.

HYC's customer base is distributed across the country, but concentrated in the PRD. 60 percent of the company's clients are located in the region. Whilst the bulk of their clients are wholly owned domestic enterprises like Haier, Zhitonneg, and Xinda Chemical, they do have joint-venture and foreign funded customers such as Panasonic, P&G, and Jabil Circuit; of which Jabil is their main customer followed by



Panasonic and then Haier. Cargos generally include such items as consumer goods, food products, electrical goods, auto parts, and chemicals but no luxury items.

HYC sees its main competitors as Debang, Baogong, China Merchants and Nanfang Logistics primarily because these companies operate strong networks in the Guangdong region. Despite the fact that the company sees these organisations as their primary competitors HYC has in the past cooperated with Baogong and Nanfang in areas like staff training.

HYC have a sales department with ten staff, a customer service department with around ten staff and an in-house IT department with six full time staff. In terms of customer service, the department is organised along project lines, what this means is that the company may put together small teams to deal with larger projects, but for ongoing client relationships, such as Panasonic, would have an administrator for the project overall who would then be able to draw from the general customer service labour force when needed.

Given the low level of express delivery the company does not believe that it will be affected by the forthcoming Postal Law.

The major obstacles identified by HYC in terms of business development are primarily fuel price fluctuation, and road toll fees. Another problem highlighted by the company was the cyclical nature of the road transport business with excess capacity during the low season, and difficulties meeting demand during the high season.

In terms of tackling these problems HYC make concerted efforts to evaluate the cheapest road routes, in terms of fuel prices (i.e. distance) and road tolls, which means that there is some flexibility built into their route planning system. In time critical situations, HYC will ask the client to cover the road toll fees if a cheaper route is not feasible or does not meet the clients' time restrictions.

In terms of vehicle deployment conflicts, HYC has a network of over 30 contracted logistics firms across the country that allow it to draw from a pool of over 1,000 vehicles when needed. Many of these arrangements seem to be reciprocal, in that HYC also operate as contractors for companies in other regions of China.



13.3 TTK Express (TTK)

TTK currently has a network that covers 1,100 cities and towns. One area of operation that distinguishes TTK's mode of operation from foreign invested enterprises is that its business structure is largely franchised-based, meaning that their network consists of a large number of semi-autonomous franchised branches. Each of TTK's franchised companies is a legally separate, independent entity operating under a unified corporate identity.

In keeping with the overall growth dynamic of the industry in general, TTK has in recent years maintained on average a 20 percent growth rate.

Interestingly, the respective clients of these franchised outfits remain confidential from the parent company. This degree of autonomy of operation extends even so far as annual revenue and profit. For this reason TTK was unable to offer accurate statistics on total revenue figures for the group as a whole.

TTK's primary business is local and national express delivery. TTK provides same city delivery, inter-city delivery and regional and national express services. TTK does not at present handle international express delivery. Generally, for regional or national deliveries, TTK offers either 48 or 72 hour delivery services. For selected customer TTK will also offer next day delivery services, which means that the consignment arrives before 12:00 pm the following day.

This service is not yet publicly available as TTK believes it does not yet have the capacity to offer such services to general client as this would, at present, impact profitability. For next day delivery, the goods must be received before 12:00 pm. For same day delivery, items must also be received before twelve, however given the time-critical nature of this service some goods are deferred to the next day.

In general same day delivery is restricted to the intra-city market although there is some flexibility in this model as certain cities, especially in the Guangdong region, do allow for the extension of this business model. TTK does not offer time specific deliveries as it does not have the dedicated consignment runs necessary to offer such services, however, TTK does offer guaranteed delivery within agreed delivery periods.

TTK currently offers two modes of transport for consignments, road and air. Whilst 80 percent of regular deliveries are achieved through standard road transport modes, urgent items are moved over to air transport. In general, the decision is left to the customer and decisions tend to be based on price and urgency. For air services requests TTK uses dedicated agents.

In general the company does not offer time definite services due to the instability of routes, but does however offer guaranteed time limits on delivery. The company does not at present offer warehousing services but can offer COD.

In total, including subsidiary companies, the entire outfit operates between 1-2,000 vehicles. Whilst the company was unable to provide exact figures, it did confirm that it did not operate specialised vehicles, and that most were box trucks, although a small percentage were vans.



At present TTK employs approximately 10,000 staff, although this figure includes all affiliate enterprises, although those directly employed by the parent company is less than 100 in terms of administrative staff and 300 drivers. TTK's estimate of 10,000 staff includes collection and distribution depot workers as well as drivers and loaders. Within this the company estimates that 3-4,000 are directly employed by the company or its affiliates whereas the remainder are in some way indirectly employed. The parent company also uses contract drivers on selected routes.

TTK as an entire operation handles around 3m consignments a month nationwide, making it 35m a year, an average of around 100,000 consignments per business day. Given that its average consignment price is CNY 10, this gives an operating baseline revenue figure of CNY 3-400m for 2006. This is an aggregated figure based on the parent companies estimation of business volumes and average consignment rates.

In general the average number of items per consignment is between one and two, however this is not fixed and the company does offer some bundled rates for multiple-item consignments to selected clients.

These concessions can sometimes raise the number of items handled on a daily basis to 180-190,000. Within this figure, parcels make up around 30-40 percent, with the remainder consisting largely of documents. This 30-40 percent makes up around 20 percent of the company's profit in the sector implying that parcels are less profitable for the company than documents. Most items in the parcel segment of business average around 20kg; the company does not accept parcels exceeding 80kg.

At present TTK operates over 600 business franchises across mainland China. TTK was able to confirm that 600 is a conservative estimate as not all franchisees are fully registered as yet.

In general most consignments pass through localised distribution and sorting hubs although this is not a concrete model across the entirety of the TTK network. This is not surprising given the decentralised nature of the TTK network. It appears there are a number of separate business models operating within the company framework.

TTK does not operate or maintain its own in-house warehousing facilities. In general TTK does not provide packing services unless the package is noticeably fragile, in which case TTK will offer the service free of charge to reduce its liability. In terms of tracking, TTK are considering the possibility of installing GPS although at present they do not operate it.

In terms of business operation, TTK does not as a rule offer discounts from quoted rates, and tends to class consignments by parcel volume; i.e. one parcel per consignment.

At present the company offers two main transport modes for longer distances. For instance to Beijing the company can offer standard road and air transport services. Although 80 percent of carriage is undertaken via the company's road network, urgent items can be taken by air. In these cases the final decision usually depends on the customer and will affect price. In terms of cargo carried by air the company outsources this to an agent or air forwarder, although has no dedicated provider.



In terms of future growth, the company sees its main growth opportunities as the same in next day and same day delivery. In general, next day delivery is more profitable simply because the distances involved allow the company to charge higher rates and hence can capitalise on economies of scale. For instance, with Beijing to Shanghai next day delivery, the company quotes their prices as up to 20 percent cheaper than both FedEx's reduced rates and EMS standard tariff rates.

Same day delivery, whilst a fast growing sector for the company, is less profitable as the service is only offered over relatively short distances, charges lower rates and is hence less profitable. However, given the relatively low transport costs of same day delivery it still promises to offer considerable opportunities for development.

The company sees the greatest business opportunities in the next five to ten years as value added services, such as processing, sorting, and warehousing. Despite the fact their business scope at present encompasses only traditional logistics services the company believes that diversifying into a more comprehensive business models will be an important development for them in the near future.

The company performs most of its sorting services at three collection/delivery depots and six distribution depots that are operated by the company, but admits that its system is relatively underdeveloped. These centres perform collection, distribution and number of other comprehensive functions. However, there appears to a diversity of operation modes performed by the company's subsidiaries, which operate largely independently of the parent company with their operational modes.

Drivers are paid a base salary with commission based upon the number of trips made, with one trip calculated as one round trip. However some of the company's subsidiaries calculate commission based on weight loads.

In general the company does not send its main drivers out for pick ups. The bulk of these pickups will be performed by couriers with bicycles or electric bikes who then upload the consignments at the distribution centres. Some of the company's distribution centres do operate small vans for pick up, but this is rare and only used for medium sized consignments. Bicycle, and electric bike, couriers are paid a base salary as well as a commission. This equates to 8 percent of the consignment value, or a CNY 2 minimum depending on which is higher. Couriers are in general assigned specific regions of responsibility. Customer's requirements are then forwarded to the specific courier.

Cargo originating in the Shanghai region makes up around 30 percent of business. Business originating in the wider Yangtze River Delta (i.e. Jiangsu, Zhejiang and Shanghai Municipal district) makes up around 30 percent with the rest of the national market making up the remaining 30 percent. The Shanghai intra-city market accounts for around ten percent of total business volume. Of the business volume originating in the Shanghai region, 70-80 percent is destined for Zhejiang and Jiangsu.

The company does not guarantee delivery times limits, although can at their own discretion offer discounted rates for deliveries that do not meet delivery times recommended by the company. For deliveries within Shanghai the company can offer same and next day delivery. For Zhejiang and Jiangsu the company normally operate next day services, however same day is available depending on the business volume.



In terms of pricing, for non time specific express delivery, which varies in time between destinations, TTK charges CNY 5 for same city delivery for documents and letters. For inter-city delivery TTK charges on average CNY 10, considerably lower than EMS. In general the company sees its main competitive advantages over EMS stemming from its smaller management structure and higher level of flexibility.

Interestingly the parent company admits to losing money on its road transport business which it makes up by selling proprietary mail bags, providing training for subsidiary companies and franchising fees. Whilst subsidiary companies pay a franchise fee for operating under the name, they do not pay a percentage of profits, which remain wholly owned by the subsidiaries. They do however have to pay for use of distribution and collection centres.

According to the company, the bulk of its customer base is in the Yangtze River Delta however exact figures were difficult to calculate given the nature of their business structure. Around 80 percent of their customer base is wholly-owned domestic enterprises.

Major clients include international forwarders (given the amount of customs declarations and bills of invoice these companies deal with), trading companies, and recently an increasing amount of online retailers.

International forwarders account for 20 percent; pharmaceutical products make up around 10-20 percent; trading companies account for 20 percent; online shopping accounts for 10 percent; the remainder is made up of a cross section of different industries. Large scale customers account for around 20 percent of business, whereas most clients tend to be small to medium sized companies.

The company identifies its five main rivals as Yuantong, Shentong, S.F. Express, and EMS. In certain situations, where TTK is unable to meet the customer's needs, TTK will actually outsource to EMS acting as a broker. In these situations the company will quote the full EMS price to the customer and will retain up to 70 percent commission on the transaction.

The company does not plan any mergers or acquisitions in the near future largely because it lacks capital to invest in such activities.

TTK does not have a dedicated sales force and most of its couriers act as sales people. Although the company did experiment with a dedicated sales force, it found that couriers were just as effective. Whilst the parent company employs around 100 couriers in the Shanghai region, the company as a whole employs around 1-2000. These employees make up the bulk of its staff. Whilst the parent company has a centralised IT department, customer service is taken care of by the branch companies who may then contact the parent company to trace the package.

The company is quite concerned about the forthcoming Postal Bill as it has identified that it could, in its present form, impact up to 70 percent of its business.

TTK estimates that less than 10 percent of the total road transport market can be characterised as parcel. However, within the total express market (including non time specific express delivery) the figure is around 30-40 percent of the total.



TTK estimates that the average consignment size is 1.5 items and average item weight for their express business as a whole is 0.2kg. In terms of profit, TTK estimates that it makes a minimum of CNY 2 per consignment for nationwide deliveries whilst intra-city deliveries generate around CNY 1-2, however the actual figure varies greatly depending on specific circumstances.

In terms of overall corporate profile TTK see them self as on a par, or at least competing with Yuantong, Shentong, and Shengda.

Major obstacles facing the company include integrating operating systems and modes between branches and generating the capital to facilitate this standardisation. Whilst the company sees its initial success as stemming from its franchised model, it now sees that as its primary weakness, lacking the capital to either standardise operations or purchase its subsidiaries outright. For this reason the company would like to list, but is unlikely to meet the necessary criterion.





13.4 Nanfang Logistics

Founded in 1992, and formerly known as the Military Logistics Personnel Enterprise, it was originally owned by the People's Liberation Army (PLA). Under new regulations preventing the military from owning commercial enterprises the company was restructured into a private enterprise.

At present the company's fixed assets total CNY 1.3bn, with 56 subsidiary branches throughout China with annual logistics turnover of roughly CNY 800mn. This figure has seen on average a 15 percent increase in recent years. Within this figure road transport makes up CNY 500m.

The company at present has 1,500 directly employed staff, with an additional 200 indirectly employed. These indirect employees usually live near Nanfang logistics facilities and are normally asked to work as sorting processors or warehousing labourers on a part-time or temporary basis.

In terms of transport fleet the company employs around a total of 700 drivers, although only 30 percent of these are employed directly by the company. 70 percent are contracted drivers, largely provided by the company's vendors. The company also has around 500 vehicles, predominantly box trailers, none of which are equipped with GPS. The company does not operate any specialised vehicles.

In Nanfang's early days of operation its primary client was TCL, and the bulk of its business was electrical goods. However, over time its business model has evolved to include food products, cosmetics, medical goods and pharmaceuticals, communication equipment and some general electrical appliances. Nanfang also offer COD services. At present the company only operates in the domestic market.

In terms of road transport business volume and composition, cargo originating in the Guangdong region makes up 70 percent of its total business volume, with around 20 percent originating in the Shanghai region and 10 percent from Beijing. Of this 40 percent of total business volume originates within Guangzhou itself. Around 30 percent of goods received in the Guangdong region remains in Guangdong with the remaining 70 percent being dispatched nationwide.

Around 50 percent of the company's road transport business is FTL and 30 percent is LTL, with the remainder made up of boxed/caged services. The company undertakes general road transport services including national line haulage by road, and is also able to offer road/air combinations.

The company has also diversified services into the fields of warehousing and distribution, as well as network planning and logistics planning. Nanfang at present operates a nationwide network.

In terms of business growth, the company sees road transport as its biggest profit market and warehousing as its fastest growing revenue stream. In terms of business development Nanfang generally sees the most profitable sector in the near future as distribution.

Generally speaking, Nanfang keeps to next day delivery for express services involving documents and parcels. However, delivery times for non-express services are dependant upon distance. The bulk of Nanfang's consignments are not express delivery, however it does offer the service upon request. In terms of express delivery, as this is not the company's core competency, it generally outsources this



service to companies with whom they have pre-existing cooperative agreements. Usually the bulk of this outsourcing goes to China Southern Air Express.

The bulk of express delivery cargo operated by Nanfang tends to product samples where time sensitivity, in terms of customer interest, is high. As far as the company's longer, nationwide routes are concerned, average delivery times range between 3-4 days.

The company outsources international express to DHL as a fixed vendor. For large volumes of goods that need to be shipped internationally the company contracts this to either Sinotrans or COSCO.

In terms of operation, Nanfang operates a number of localised sorting hubs, of which the main parent company's is located in Guangzhou. The company's four Guangdong subsidiaries also operate sorting hubs across Guangdong Province, located in Guangzhou, Huihe, Dongguan and Zhongshan. Other subsidiaries operate sorting centres located in Wuxi, Chongqing and Urumqi.

The company's Tianjin subsidiary is a regional distribution warehousing centre (RDC) and is not equipped with a separate sorting centre. All seven of the above sorting centres are wholly owned and operated by the company.

Around 80 percent of Nanfang's customers are based in the Guangdong region; around 20 percent are based in central, northern and southwest China. Around 60 percent are domestic enterprises, while foreign funded and joint venture enterprises make up about 40 percent.

Cargo mix is distributed between home appliances, clothing, high-tech products, food and beverage, and pharmaceuticals. The company does not move sizable volumes of luxury goods, or automotive parts. Within this product breakdown consumer goods make up around 60 percent, whilst high-tech products make up around 30 percent, other goods constitute around 10 percent.

70 to 80 percent of all road transport business is made up from the company's five main customers Huawei Technologies (Shenzhen), TCL, Galanz, Mead Johnson, and Siemens. Mead Johnson is not at present the company's largest customer as Nanfang currently only take care of part of their transport needs, however the company does hope to develop this relationship further, adding additional business from its client. In terms of warehousing business its largest client is Amazon.

Business from TCL alone generates CNY 400m, accounting for roughly 50 percent of the company's road transport business revenue. Business from Huawei generates around CNY 100m.

In terms of competition, the company sees its primary rivals as P.G. Logistics, Annto Logistics, and China Merchants Logistics, all of which the company identifies as 'medium' sized enterprises. P.G. Logistics the company sees as relatively similar to themselves in terms of business mode and scope. China Merchant of course has access to much larger investment inputs and a much stronger equipment and asset base.

However, none of these companies offer express delivery services and so are unable to compete in that arena, a competency the company sees as its main advantage over the aforementioned companies. In term of express delivery specifically, the company identifies Shunfeng as one of the industry's top competitors. No major competitors have entered the market in the last three years.



In terms of commercial operation, the company has a sales team staff of twelve employees. The company also has its own in-house IT and customer service departments.

The company believes there is a distinct parcel market and estimates that around 8 percent of the total road transport market can be characterised as parcel.

Major obstacles overcome by the company in recent years include the enforcement of overloading restrictions which amounted to an increase in transport costs. Another major obstacle the company cited was periodic fuel shortages which resulted in delays and affected promised delivery times.

When confronted with such situations the company actively engages the customer in an effort to gain the client's understanding. The company also closely watches government legislation to adapt business operations and proactively communicate forthcoming difficulties to customers. The company does not however believe the forthcoming Postal Bill will significantly affect operations.





13.5 Yuefeng Express

Yuefeng began preparatory work in 1998 and began formal operations in 2001, and since then the company has developed rapidly. The company primarily specialises in domestic and Hong Kong express business although it has branches in major Provincial cities. The company also has a sister company based in Shanghai but the two entities remain relatively independent of one another with no unified management structure.

In 2006 the two companies cumulatively recorded CNY 80m in revenue, although this figure does not include the revenue of smaller franchisees in other provinces and regions that remain relatively independent of the two parent companies.

The companies grew rapidly during their early stages of development recording around 100 percent growth year on year for the first three years of operation. Since then growth has slowed to around 1-2 percent largely due to increased fuel prices and general inflation pushing up costs.

However, in 2007 the South China parent company (Guangdong office), received an additional investment injection of CNY 20m. Collectively the South and East China parent companies record a CNY 500,000 profit per month in their express delivery business. This equates to around a 10 percent profit ratio. The company claims to make CNY 1 profit per consignment on average.

The company does not offer time-definite delivery services per se, however the service can be made available on request. In general the company offers same day and next day express delivery services in the PRD and Hong Kong. Within Hong Kong SAR and the PRD the company offers morning pick-up/afternoon delivery and afternoon pick-up/ next morning delivery. The South China company provides next day delivery for most provincial first-tier cities, and two day delivery for second tier cities.

The South China company has 80 wholly owned vehicles, and its franchised branches operate at least 80-100. The East China company has 250, and also operates 70 in Fujian. These vehicles are predominantly multi-vans, IVECOs and Box trailers. There are no specialist vehicles.

The Guangdong office and the Shanghai office, both operate four sorting hubs in Shenzhen, Zhongshan, Shantou, Guangzhou and Shanghai, Wuxi, Hangzhou, and Nanjing, all of which are wholly owned by the parent companies.

The company sees its most profitable business as same day delivery and identifies the fastest growing sector of its business as express services between Hong Kong and the PRD. The South China company operates 72 collection and delivery depots, 37 of which are owned by the company, the rest of which are franchised. The East China company manages 122 collection and delivery depots, only 10 of which are owned by the parent company, the rest of which are franchised. The South China company employs 160 drivers directly, and at present has 20 under contract from other firms.

The company does not directly provide air transport but has fixed air forwarding agents including Shanghai Airlines, Xinhua Logistics, and Shenzhen KYT. In general the company does not offer any discounted rates.



Both parent companies provide a Taiwan express route which they run in conjunction with an air express agent for which they pay CNY 14/kg and charge CNY 20/kg. For international express delivery the company recommends international express delivery firms on a pro gratis basis.

In terms of business volume the South China parent company handles 15,000 consignments a day, and the East China parent company handles around 20,000 consignments a day. For the South China company 85 percent of consignments are single item consignments, for multi item consignments the average number of items is 3. Of total business volume, 40 percent is documents, 40 percent is small parcels and 20 percent is oversize parcels (over 100kg). Maximum weight for the South China company is 200kg and average item weight is 0.8kg. 60 percent of consignments originate from the clothing and electronic parts industries.

For the South China company, 50 percent of cargo originates in Shenzhen, around 20 percent is from Dongguan, the rest from the wider PRD, cities such as Zhongshan, Guangzhou, and Shantou.

12 percent of cargo is destined for the wider PRD, 15 to 20 percent Hong Kong, 15 percent to Shenzhen and the rest to wider national area, in particular Fujian Province.

70 percent of the South China company's customers are local companies, i.e. Shenzhen based, 30 percent are from the wider PRD and 10 percent are foreign funded enterprises.

The company's top four competitors are Fast Express Ltd, Shenzhen DDS, A Plus Express, and LBEX. These are all express companies. A Plus Express is a Taiwan based company, the others are all medium sized Chinese enterprises. Fast Express has obvious advantages in Guangdong and Hong Kong markets but does not do well in the East China market where the company can leverage its relationship with its sister company. Shenzhen DDS can reach everywhere in the Guangdong area. A Plus has seen a balanced development in both South and East China markets. LBEX does very well in COD business.

The company as a whole has no dedicated sales force, as drivers and express staff perform sales. The South China company has in-house IT and customer service departments which deal with inquiries and claims.

The company believes the forthcoming Postal Bill could potentially have a huge impact on their business, and also the business of companies like STO and SF because these companies handle a larger volume of letters and documents than Yuefeng.

The company identified that there is a distinct China parcel market the bulk of which is concentrated in the South, Eastern and Northern areas, although as a percentage of total road transport volume the sector is small, around 10 percent.

The company's biggest hurdles at present are how to maintain company brand and image. The company plans to focus in the near future on staff training and improving their customer relations. The company also plans to expand its operating network. This it is doing in part by contracting additional vehicles.



13.6 Neda Logistics (Guangdong Gangzhong Nengda Express)

Neda was founded in 1999 and started as a very small enterprise and began expanding in 2002. The company primarily focuses on the domestic express market although it has had some dealings in the international market using international express delivery companies as agents. However, as their domestic network took shape they left the international market.

The company currently employs over 4,000 people, 300 employed as management, and had an annual revenue figure last year of CNY 150m the vast bulk of which was derived from the express sector. This figure has been growing at an annual rate of around 35 percent for the last few years.

The company's business is primarily focused in the Guangdong region but it also cooperates with vendors in other regions to extend its network. The company primarily provides same day express delivery service within Guangdong Province which accounts for around 90 percent of the company's total business volume.

They also provide dispatch services for e-commerce providers such as Amazon. They do not provide warehousing. Express service takes up to about 70 percent of the company's business; e-commerce dispatching is about 20 percent; and logistics is about 10 percent of total business volume. 100 percent of the company's business volume originates in Guangdong, around 30 percent of which is from Guangzhou and only 10 percent is destined for outside of Guangdong.

The company was able to confirm that its annual total operating costs, including warehousing, administrative costs, transport wages, etc., amounted to CNY 140m for 2006, making profit around CNY 10m.

The company employs around 3,000 couriers and utilises the services of over 1,000 drivers at present. Among them, 2–300 drivers are directly employed by the company; and rest are owner-drivers. Around 30 vehicles are equipped with GPS.

The company operates around 250 vehicles around 20 percent of which are box trailers, the rest of which are small vans. Large goods for road transport are generally outsourced. The company at present has no capacity to transport hazardous chemicals but is looking into the possibility of developing that business stream.

Neda operates 2 express sorting hubs – one located in Dongguan and the other in Guangzhou – and five logistics sorting hubs in the PRD. The company also operates nearly 140 pick up and delivery depots that are all located throughout Guangdong Province for express service; all of them are owned by the company.

The company has a dedicated sales force, and couriers also act as sales people. The company also has its own in-house IT department.

All of the company's Guangdong road transport business is conducted by the company itself; however it outsources longer routes outside of the province to other logistics firms. The company also



subcontracts air express business to agents like China Air Express, Shanghai Airlines and China Southern.

In express business volume the company handles around 20–30,000 express consignments a day, 70–80 percent of which can be categorised as parcel or small package. The average number of items per consignments is two to three. The company does not usually handle packages over 50kg or larger than 1.5 cubic metres. The company estimates the average parcel weight is around 7–8kg. Of this figure, the company estimates that 70 percent of express service business is parcel delivery, while documents and letters make up 30 percent.

100 percent of the company's cargo originates in the PRD, 40 percent from Guangzhou itself. The vast majority of which, 90 percent, remains in the PRD. Only around 10 percent goes to the wider national market. 90 percent of all the company's business is LTL, and only 10 percent FTL. Average road transport route length is 12 hours.

Almost all of the company's customers are domestic enterprises operating in the PRD. Consignments usually consist of consumer goods, high-tech products, clothing, hardware, and various goods samples. Its primary express clients are Joyo Amazon, TCL and Hisense. For international express the company usually outsources to international express providers like DHL.

The company considers its most profitable and fastest growing business stream as express delivery.

The company sees its primary competitors in the express business as SF, LBEX and Lian Haotou. Both LBEX Express and Lian Haotou are relatively large franchise based companies based in Guangdong. The company does not believe any major new competitors have emerged in the last three years.

In terms of the forthcoming Postal Bill, the company does not believe that the new regulations will be rigorously applied in Guangdong Province. The company also believes that its close relationship with China Post may shield it from strict implementation.

The company estimate that around 13 percent of the total road transport market can be categorised as parcel. The company also estimates their current share of the parcel market represents around 1 percent of the total national market. Average parcel weight is around 5–10kg. Average revenue for a domestic parcel consignment is around CNY 20 and the average number of items per consignment is around one.

Major difficulties faced by the company include staff recruitment, fuel prices, and a lack of standards to regulate competition in the industry. Staff recruitment has become increasingly difficult as couriers are only offered around CNY 1000 a month, and since the introduction of the 'New Socialist Countryside' agricultural reform policy, agricultural incomes have risen to around that level, reducing labour flow into the industry. To counter this, the company has been forced to cut profit margins and raise salaries.



13.7 E-Road Logistics

E-Road was established in 1993, and revenue for 2006 reached CNY 300m, a year-on-year growth figure of 20 percent, however previous to this, the company grew at the faster rate of almost 40 percent. The company employs around 1,300 staff directly, and around 40 indirectly. In terms of business scope the company primarily provides road transport and air cargo forwarding, although it also provides sea and rail services; combining these it serves clients in China, Russia, Europe, and Southeast Asia.

The company has around 7-800 drivers some of which are directly employed by the company, some of whom work for the company's franchised outfits. The parent company has a sales force of approximately 40 to 50 people and all of its IT and customer service is in-house.

In terms of IT solutions, E-Road offers its clients' bar-coding, VMI, EDI, and WMS. It uses GPS to supervise, manage and dispatch vehicles and has developed its own e-commerce platform *E-ROAD Logistics E3 Logistics management system*.

For express delivery the company offers three guaranteed time services: 19 hours from Beijing to Shanghai, 28 hours from Shanghai to Shenzhen, 33 hours from Shenzhen to Beijing. The company is also able to provide FTL / LTL (long haul or short haul), groupage, and palletised and boxed/caged services. The company provides VAS-Pick, POD and COD.

Although it works with consignments for a number of enterprises, E-Road does not consider itself to be in the parcel business because it does not handle 'individual parcels' and does not have couriers on staff. Instead the company tends to handle large consignments of parcels. In this sector the company can offer 33 hours from Shenzhen to Beijing, 19 hours from Beijing to Shanghai, and 28 hours from Shanghai to Shenzhen.

E-Road has contracted cargo space from Shenzhen Airport, and signed with several airlines companies for priority of loading. E-Road claims to offer 'air-cargo services' at 'truck-freight prices'.

The company asserts that its information system is a key factor in E-Road Logistics' success with barcode technology, VMI and WMS to handle customer's goods, and GPS to manage vehicles and transportation. To accomplish this, the company has built its own electronic commerce platform, the E-Road Logistics Management System (E3 System), which is supported by EDI and Internet technologies, to process business data. The goal is to work on a series of synchronous activities with client businesses.

In general the parent company undertakes around 80 percent of all the road transport duties themselves. However, when delivering to areas such as Lhasa, Xinjiang, and the Northeast the company uses subcontracted companies.

E-Road also offers logistics consulting services that encompass design, implementation and distribution. From examining clients' current routing and consolidation practices to assessing the economic benefits of re-designing entire supply chain operations and systems, the E-Roads strategy



logistics specialists team works directly with customers in designing a complete or partial supply chain models.

The company's central warehousing facility is located in Shenzhen and covers an area of 60,000 square metres, and it also own warehouses in Suzhou, Beijing, and Hangzhou. The company operates seven central sorting hubs in Beijing, Suzhou, Hangzhou, Chengdu, Xi'an, and Shenzhen, with a Guangzhou hub under construction.

All in all its operations total 120,000 square metres. The company's business outlets function as pick up and delivery points, in total therefore the company operates around 70 delivery and pick-up points many of which are franchised. The company operates 1,200 vehicles, 200 of which are box trailers.

In general, the company sees the most profitable and fastest growing business stream as coming from the international air freight forwarding arm of their operation.

Road transportation accounts for a quarter of annual revenue. 80 percent of traffic originates from Shenzhen, the remainder comes from other regions in China. 20 percent of traffic is destined for Shenzhen, 30 percent for international destinations and 50 percent to the wider Chinese market.

The company serves a diverse client base, with 30 percent of its business coming from transport of consumer goods, 8 percent coming from the automotive industry, 5 percent from luxury goods and the remainder from electronics. Top clients include Haier, Lenovo, Nokia, Samsung, Sony, Siemens and Shenzhou Digital, accounting for roughly 35 percent of total revenue.

Rough estimates for the road transport business break down as follows: FTL accounts for 20 to 30 percent, LTL accounts for 40 percent, groupage 10 percent, palletized less than 10 percent, and boxed/caged around 1 percent.



13.8 SF Express

SF was established in Shunde, of Guangdong Province, in 1993. Its initial business model was providing same day courier services between Hong Kong and Shunde. Under increasing demand, Shunde expanded its business network to Zhongshan, Panyu, Jiangmen, and Foshan. In 1996, SF extended its network outside of Guangdong Province. By 2006, SF's network covered most of the country. The main pickup and delivery depots are in Beijing, Shanghai, Hangzhou, Guangzhou, Shenzhen and Xiamen, of which the largest is in Shenzhen.

Revenue for 2006 exceeded CNY 2.5bn, averaging an annual growth rate over recent years of almost 50 percent. The company claims its profit margins are around 30 percent which would make it one of the more profitable domestic express enterprises in China.

SF has developed its network entirely by itself and also runs all of its branch companies. The company puts a tremendous amount of effort into standardising operations and improving technology and equipment. SF guarantees 24-hour delivery within its service network coverage.

The company mainly provides both time definite and non time definite express delivery services across both mainland China and Hong Kong, and COD.

In terms of general service characteristics the company does not process any express mail or packages collected from competitors who wish to use the SF network. The company also does not deliver to cities that are not listed in their network. At present, its network covers 19 Provinces and municipalities, Hong Kong, and 282 cities.

The company leases Boeing 737 aircraft from Hainan Air to fly between Shanghai and Shenzhen on a daily basis. Flights leave Shanghai at 10:00pm for Shenzhen and arrive in Shenzhen at 12:00 am; leave Shenzhen at 4:00 am for Shanghai and arrive in Shanghai at 6:00 am. The aircraft load is 15 tonnes.

In contrast to many providers in the industry, all of the branch offices of SF Express are self-run; it does not engage in franchising or alliances. However, the IT department is out-sourced. It also outsourced construction of its billing system to IBM.

The company does not provide 800 toll free numbers as they do not consider it important. The company does not offer any discounted rates, does not advertise or have any organised sales force.

In general, the company tends to maintain a very low profile and very little is known about its management

In terms of development the company tends to concentrate on the more economically developed regions. This is reflected in the fact that the company does not at present have a presence in many of the lesser developed regions such as Guangxi, Yunnan, Guizhou, Jiangxi, and Qinghai. In contrast SF is present in almost every town in Guangdong Province, and also has relatively intense saturation of branch offices scattered in Shanghai, Jiangsu and Zhejiang Provinces as well as northern China.



In terms of product mix SF is also unconventional. The ratio of documents to parcels is on average 6:4, which is not in keeping with industry averages of 3:7. SF intentionally specialises in the document market as it feels this market segment provides the highest profit and lowest risk in terms of damage.

SF's overall market strategy is concentrated on the low to medium end market. In these terms SF does not accept goods for which the insurance value per consignment exceeds CNY 5000.

In terms of pricing SF charges CNY 12 for the first kg. Whilst this is not particularly cheap, combined with the company's same day delivery within the PRD, the company has managed to leverage an almost 20 percent market share in the region.

The company sees its major direct competitors as EMS and DTW and cites as its indirect competitors ZJS, China Air Express, China Railway Express, DHL, TNT and STO.





14 Case Studies- Other Regions

14.1 Beijing ZJS Expres (Zhaijiong Express)

Beijing ZJS Express is a Joint Stock Limited Company. Zhaijiong Express is China's fourth largest express delivery company by volume. The company was established in 1994 by the present CEO, Chen Ping. The company's network at present covers 2,000 districts and cities with around 40 branch companies making up their nationwide express network. Annual revenue for 2005 was estimated to be in excess of CNY 650m.

ZJS has logistics centres in Beijing, Shanghai, Guangzhou, Shenyang, and Wuhan totalling 100,000 square metres. At the end of 2006, ZJS' total assets reached around CNY 500m with 8-10,000 employees and more than 1800 transport vehicles. Business turnover for 2006 was 70m consignments, an increase of over 45 percent over the previous year. The company has 480 branches, more than 1000 proved joint cooperation networks, and 10,000 agents nationwide. Corporate customers account for 90 percent of its revenue.

The company currently operates eight warehousing and logistics distribution centres in Beijing, Shanghai, Guangzhou and Shenzhen with a total area of almost 45,000 square metres which conduct warehousing, sorting, packing and distribution.

In terms of domestic express delivery, ZJS currently offers same day delivery service, pick up before 12 noon and delivery before 12 midnight, next day delivery, pick up before 5:00 PM and delivery before 5:00 PM the next day, and a 48 hour service. ZJS also offers valuable items handling and customs clearance

ZJS has an IT development team of 270 employees and ZJS vehicles are equipped with GPS. It also use ERP and bar coding.

ZJS has opened up regular shuttles on routes such as Beijing to Guangzhou, Shanghai and Shenyang; Xi'an to Zhengzhou; Chengdu to Xi'an; and Guangzhou to Shanghai. In addition ZJS currently leases aircraft creating a China air cargo network.

Despite the name of the company - which bears a striking resemblance to the Japanese Zhaijibian, or express - ZJS remains a wholly domestic owned enterprise. During the early days of ZJS the company established a cooperative relationship with a Japanese express service, but cooperation was subsequently curtailed.

The similarity in the names is due to fact that Chen Ping, the company's founder, studied for a period in Japan, and hence developed the idea of establishing an express delivery company.

In 2006 ZJS began its current attempt to list on the Hong Kong stock exchange. Whilst reports have estimated that ZJS intends to raise HKD 200m in the listing, this could well be far from a done deal. ZJS first announced its intention to list in 2004 with the intention of using the capital to fund continued expansion but was forced to abandon plans shortly after due largely to insufficient financial records.

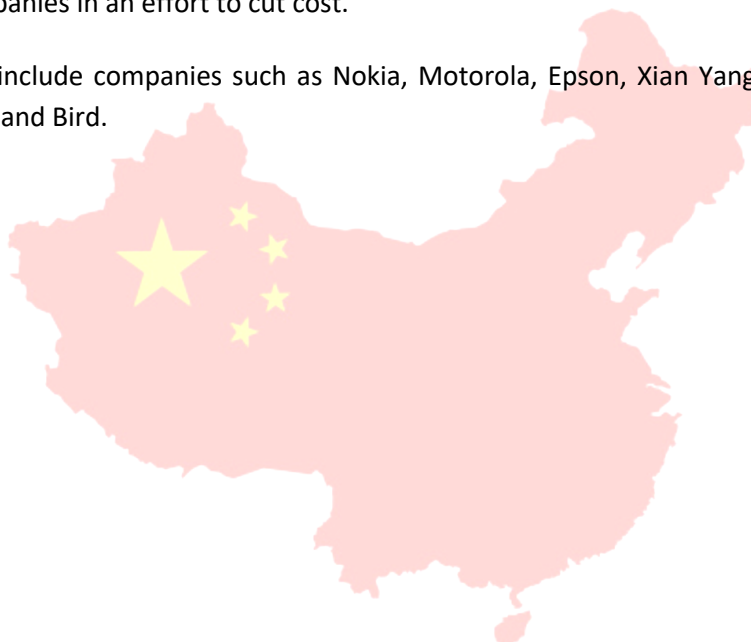


ZJS also went on to announce a second attempt to list in the first half of this year, 2007. The current attempt is rumoured to be worth HKD 200m and if successful would make ZJS the first domestic express company to enter the international capital market. It has been rumoured that funds this time around have been earmarked for the purchasing existing logistics companies in the Pearl River Delta, including Hong Kong.

It has also been speculated that the company intends to set up a transshipment centre in Shenzhen to link with international delivery networks through Hong Kong, where it has already held acquisition talks with seven or eight potential targets.

In terms of the major problems faced by ZJS, the company has in recent years been hit by the endemic erosion of profit margins that at present pervade much of the sector. As part of the company's long term strategy, ZJS intends to integrate its operations more fully with those of airlines, railways, and warehousing companies in an effort to cut cost.

Major customers include companies such as Nokia, Motorola, Epson, Xian Yangsen, Panda Mobile, Langchao LG, ABB and Bird.





15 Conclusions

15.1 Major Obstacles Facing Medium to Large Scale Domestic Express Providers

There are a number of major obstacles facing these companies at present. Not least of which is rising fuel prices, road tolls, rising wages, erratic fuel supply and inelastic pricing.

Whilst availability of fuel is relatively stable in major cities, as the supply chain stretches further into the Chinese hinterland this is not always the case. A good example of this can be seen in western provinces at the moment, where diesel prices are currently three times the state designated price. Shortages of crude and slow running refineries in China have led to many people hoarding supplies and have hence forced prices up.

In dealing with these difficulties, many providers add additional fuel surcharges at peak fuel price times. Others are simply forced to reduce profit margins.

Another area of concern for many domestic enterprises is the rising cost of labour. Most couriers only make CNY 1000 per month, sorters make 1,500 per month, and drivers make between 3,000 to 5,000 depending on commissions. The average national wage for the road transport industry is CNY 1,192 per month. With an estimated 50 percent of workers in the industry coming from rural areas, the recent introduction of the agricultural reform policies have pushed up rural incomes to 1000 CNY per month - a level that competes with express industry wages in many areas. As a result, many companies have experienced difficulties filling positions.

Many companies also cite the relative inflexibility of pricing models as a major obstacle. Whilst costs at every level have been increasing for providers, customers are usually unwilling to accept price rises.

Another major obstacle cited, is the relatively low profit margins involved in the industry. Many companies are starved of capital investment due to these margins and hence have great difficulty replacing equipment, upgrading facilities and expanding capacity.

15.1.1 Standardisation

The lack of standardised operating procedures and terminology has led to some confusion within the industry as providers struggle to adequately define their services. In general though, most providers agree that *kuaidi* (express delivery) and *kuaiyun* (express transport) are both modes of express delivery.

Whilst the Ministry of Communications has no formal or legally recognised distinctions between these two terms at present, many companies surveyed agreed that *kuaidi* was usually used to refer to time definite express delivery services, whereas *kuaiyun* was usually used to refer to non-time definite same/next day express delivery. Some, however, used *kuaidi* to refer mainly to intra-city courier delivery.

Although *kuaidi* is more commonly used, the terms are often interchangeable. *Kuaiyun* is also applied at times to certain specialised sectors of the general logistics market, for instance for expedited cargo.



Another confusing factor is the fact that some companies with almost identical operations define themselves differently. For example SF Express defines itself as *kuaiyun*, whereas TTK Express uses the term *kuaidi*.

Interestingly there is no mention of *kuaiyun* in the Postal Bill draft. It simply refers to the industry as *kuaidi*.

15.1.2 Business Volume and Composition

In general, most companies surveyed confirmed that around 30 percent of their total express delivery volume consisted of parcels, with the remaining 70 percent predominantly consisting of documents. Letters generally make up a very small amount of total volume.

Of this 70 percent, the vast bulk appears to be non-time definite, same or next day delivery.

15.1.3 Operations

In terms of operations there are wide variety of operation modes; a reflection of the organic growth of the industry. Successful companies in the industry have, not surprisingly extended networks from the three core regions of economic development: Beijing-Tianjin, the Yangtze River Delta, and the Pearl River Delta. Expenditures on assets are often deferred to local franchises and “subsidiary” enterprises.

Whilst the coverage of these networks appears extensive based on company literature – relationships with franchisees and affiliates in outlying provinces is often tenuous at best. In fact, some companies are just loosely affiliated networks of unrelated trucking companies with elaborate marketing materials to create the impression of a unified corporate entity. Mirroring trends of decentralised development that have characterised many aspects of Chinese society over the past 20 years, enterprises have strong bases in their native regions with operations becoming more autonomous as they expand.



15.2 Express Market Overview

Based on primary research, China Intelligence Online estimates that within the overall express delivery sector, including both express delivery (*kuaidi*) and express transport (*kuaiyun*), the overall volume of express parcel business in 2006 was between 318m and 364m items.

The overall volume of express documents and letters runs between 742m and 850m with documents accounting for upwards of 80 percent of this volume.

Statistics from NBS indicate that volumes of China Post express delivery for the Beijing-Tianjin, YRD and PRD regions are 10 percent, 21 percent, and 16 percent respectively. Figures from China Communications and Transportation Association report China Post parcel volumes in the same regions to be 11 percent, 21 percent and 11 percent respectively.

However, these figures relate only to China Post volumes. Given that non-post express exceeded post express by a factor of 3.5 in 2006, and based on field research, and industry sources China Intelligence Online estimates that the majority of non-post express volumes are primarily concentrated in the more prosperous eastern and coastal regions with the following distribution: 30 to 35 percent in the PRD; 20 to 25 percent in the YRD; and 10 to 15 percent in the Beijing/Tianjin region. China Intelligence Online also predicts that this market will continue to grow at around 25-30 percent per year at least until 2010. On average China Intelligence Online forecasts that 1 percent of GDP growth calculates to between 2.5 percent and 3 percent market growth.

Sources indicated the PRD generated large volumes of parcel traffic as a result of its manufacturing base while the Beijing-Tianjin and YRD traffic was tied more closely to tertiary industry.

Speaking in terms of the wider Beijing-Tianjin area, the YRD, and the PRD, China Intelligence Online estimates that around 70-80 percent of this business volume remains in the area of origin.



15.3 Predictions and Forecasts

In general China Intelligence Online predicts that the market is ripe for a period of widespread merger and acquisition activity. This is largely because many companies have seen profit margins eroded by rising costs and an inflexibility in pricing, for example the customers unwillingness to accept rising prices and cut-throat competition between enterprises and the availability of low cost small scale 'family' enterprises.

A general decline in profit margins across the medium domestic provider sector has left many enterprises with an inability to finance expansion and cover operational costs, like replacing or upgrading equipment and facilities.

Given the large levels of under agglomeration in the industry and the fact that the central government is likely to make low cost loans available to the express delivery sector in the near future, it is likely that some of the larger enterprises engaged in the industry will take advantage of this and aggressively expand their networks.

Also within the overall industry structure profit margins within domestic enterprises in the express delivery sector tend to be low. For the majority of companies profit margins tend to be around 10 percent. It is this level of profit that has led to many enterprises expanding their business networks through means that require minimal investment.

It is these methods, for example alliances, franchised branches and partnerships that in many ways contribute to the overall under-agglomeration of the industry, and the overall lack of standardisation across all levels of the industry. This is also one of the over-riding reasons why many of the companies in the industry have enormous difficulty building their brands and imposing standardised customer service provisions across their companies.

In general many of the companies surveyed intend in the near future to attempt to diversify their operations from express delivery provision into areas such as supply chain management, and warehousing, which many see as a more stable and profitable sector than road transport, given the recent fluctuations in the market and the relatively underdeveloped nature of supply chain management in China. Numerous enterprises commented that they see the sector as a more profitable area than road transport.

In general the sector is ripe for a sustained period of integration and standardisation. However, the nature of this process depends greatly on forthcoming legislation and the desire of the Chinese government to protect small and medium scale enterprises in the sector. However, whatever happens, it seems likely that market developments in the near future will either eventually be forced to lead to increased profit margins in one way or another. Whether this is achieved through increased pricing, or consolidation of the industry remains to be seen.

16 Disclaimer

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