

China wraps up new trend in exporting

By Robert Wright in London

The cardboard boxes sitting shrink-wrapped in NYK Logistics' dimly lit warehouse in Shanghai look unexceptional. But, on closer examination, they form a small part of the latest trend in outsourcing to China.

According to Sachiko Dohi, general manager of domestic Chinese operations for NYK Logistics, part of Japan's largest shipping line, the boxes - going to Tesco, a UK supermarket chain - would once have been packed loose into containers and unpacked individually at a UK distribution centre. Now they are sorted into the quantities needed for each superstore, shrink-wrapped and placed on their own pallet. Expensive handling at the UK distribution centre will be cut back.

The technique is only the least sophisticated of a series of methods spreading fast among logistics companies to allow customers to move all but the most unavoidable handling of goods made in east Asia away from the main consuming countries.

Companies from countries as far apart as Japan, Chile, Spain and the US now have goods sorted before they leave China into the right mixes for individual stores or distribution centres and labelled with the correct price. Many will be ready-

packed into a display stand.

The most sophisticated efforts to outsource work see workers in Hong Kong sorting more than 100 items made in China into a miniature chest of drawers full of all the equipment a child will need for the school year.

The new methods have spread rapidly because factories in the Yangtze River delta, which used to declare goods to customs officials only when they arrived at a port, increasingly declare goods when they leave their factory in a sealed container.

The change has meant companies buying the goods often need to use specialist logistics companies with bonded, customs-supervised warehouses for any sorting between the factory and export. Logistics companies then seek to offer more and more sophisticated sorting, testing and labelling services to their warehouse users.

"Rather than focusing on simple transportation and simple warehousing, we try to develop solutions for customers," says Erxin Yao, managing director for China for OOCL, a Hong Kong shipping line, whose logistics arm handles sophisticated distribution for Japanese and South Korean department stores from Shanghai.

The changes have also been made possible by the spread of fast, reliable, cheap container shipping services -

some voyages from Hong Kong to Europe take only 20 days - and the internet, which allows retailers to adjust orders up until just before they are dispatched.

Vera Tang, of Hong Kong-based Kerry Logistics, says it can offer companies services such as picking - selection of the correct goods to go in the correct container - to quality control, price-tagging and building display towers. "All these activities used to be done at the distribution centre," she says.

The techniques were first used in the Shenzhen area of southern China, where factories started declaring goods at the factory gate far earlier.

The practice is also one where Hong Kong retains a distinct advantage over mainland China. The former British colony levies no customs duties and, as a result, goods made in mainland China can easily be sent to Hong Kong for sophisticated sorting before export.

But operators across China hope to pick up at least some of the increasingly sophisticated business. Ms Dohi says that in Shanghai NYK does none of the most sophisticated pre-shipment sorting of goods for its customers. However, it hopes to start doing so soon.

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Western retailers shift their supply chain tasks to China

By Robert Wright in Shanghai

Retailers and consumer goods companies in the developed world are increasingly shifting logistics operations from their home countries to China. Goods are sorted, labelled and even placed in displays for direct shipment to individual stores before leaving Chinese ports.

Shipping lines, logistics companies and warehouse operators say costs spur customers to move the sorting process away from consuming countries, continuing the outsourcing trend to lower-wage economies that began with manufacturing going to China.

The process is known as "distribution centre bypass" because it cuts out distribution centres in the destination country.

Logistics companies and those using the system tend to be wary of publicity, but the UK's Next, a fashion retailer, is known to do much of its sorting for delivery at ATL Logistics in Hong Kong, a distribution warehouse owned by

Dubai's DP World. Goods are packed into containers in the right quantities and right order to take direct from a UK port to individual shops.

Distribution jobs were once thought least likely to go overseas because it is complex to arrange supplies of goods for stores in the right quantities.

Vera Tang, general manager for corporate development of Hong Kong-based Kerry Logistics, expects growth in the next few years to be "huge" as so many companies still run expensive distribution centres at home. "You can imagine - in those high-living-standard countries like Scandinavia - if we can replace what they are doing at the destination with a similar operation at origin, the percentage [saving] can be huge."

Among Kerry clients using distribution centre bypass are a New Zealand-based lingerie maker and department store chains in the US, Spain and Chile. In Chile's case, she said

the company shifted logistics operations abroad, not primarily for cost reasons, but because Chinese workers were more reliable.

Companies not phasing out distribution centres at home are cutting handling costs by paying for processing in China. Boxes of goods for Tesco's UK supermarkets from NYK Logistics in Shanghai are shrink-wrapped in quantities needed by each store to reduce UK handling.

Many expect Chinese processing to become more sophisticated. Erxin Yao, managing director for China at OOCL, a Hong Kong shipping line, said his company's logistics arm hoped to attract imports of goods not made in China for sorting at its warehouse to distribute to Japan and Korea.

It already handles logistics for Chinese-made exports to Japanese and Korean shops from a Shanghai warehouse.

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