



*Hot Topic Report*

# **China Supply Chain Perspectives**

*Operations & Future Investments*

---

**Supply Chain Consortium**

Benchmarking & Best Practices

*May 16, 2012*

*[www.supplychainconsortium.com](http://www.supplychainconsortium.com)*

**TOMPKINS**  
**SUPPLY CHAIN**  
C O N S O R T I U M

# China Supply Chain

## Table of Contents

	<u>Page</u>
Introduction	3
China Office Role	4
Length of Time in China	5
Number of Employees in China	6
Primary Objectives	7
China Supply Chain Capabilities	8
Sourcing	14
Manufacturing	18
China Distribution Network Alignment	20
China LSP Usage and Reasons	21
Investment in China	23
Summary	25
Report Authors	27

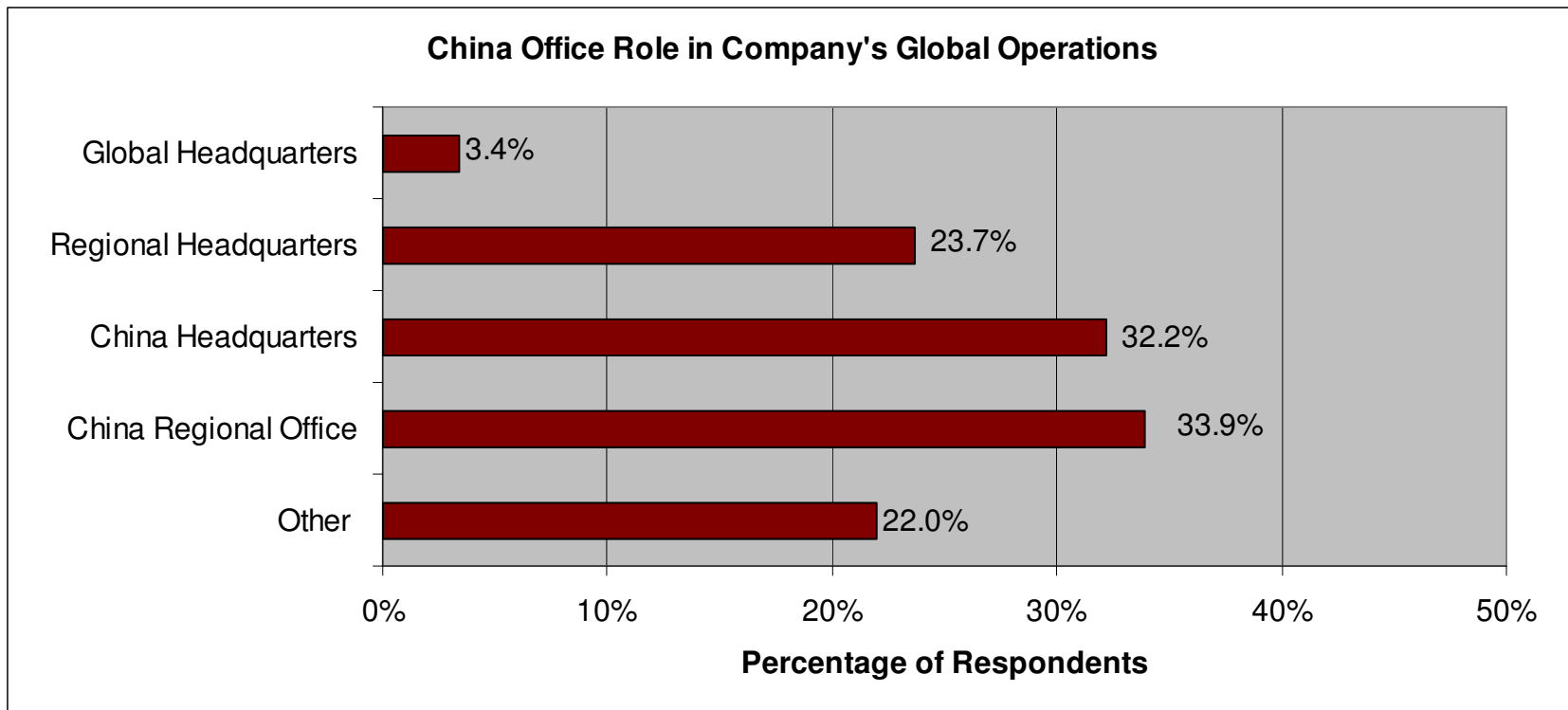
# Introduction

The *China Supply Chain Perspectives Report* provides an outlook on China supply chain operations from North American companies. Survey questions were created to determine how these companies are using their China supply chains in support of sales domestically, as well as in China.

Nearly 100 supply chain executives from North American-based companies participated in the survey, representing all major industry segments. The majority of respondents are from the consumer products industry, which includes fast-moving consumer goods, electronics, food and beverage, and industrial commercial manufacturers.

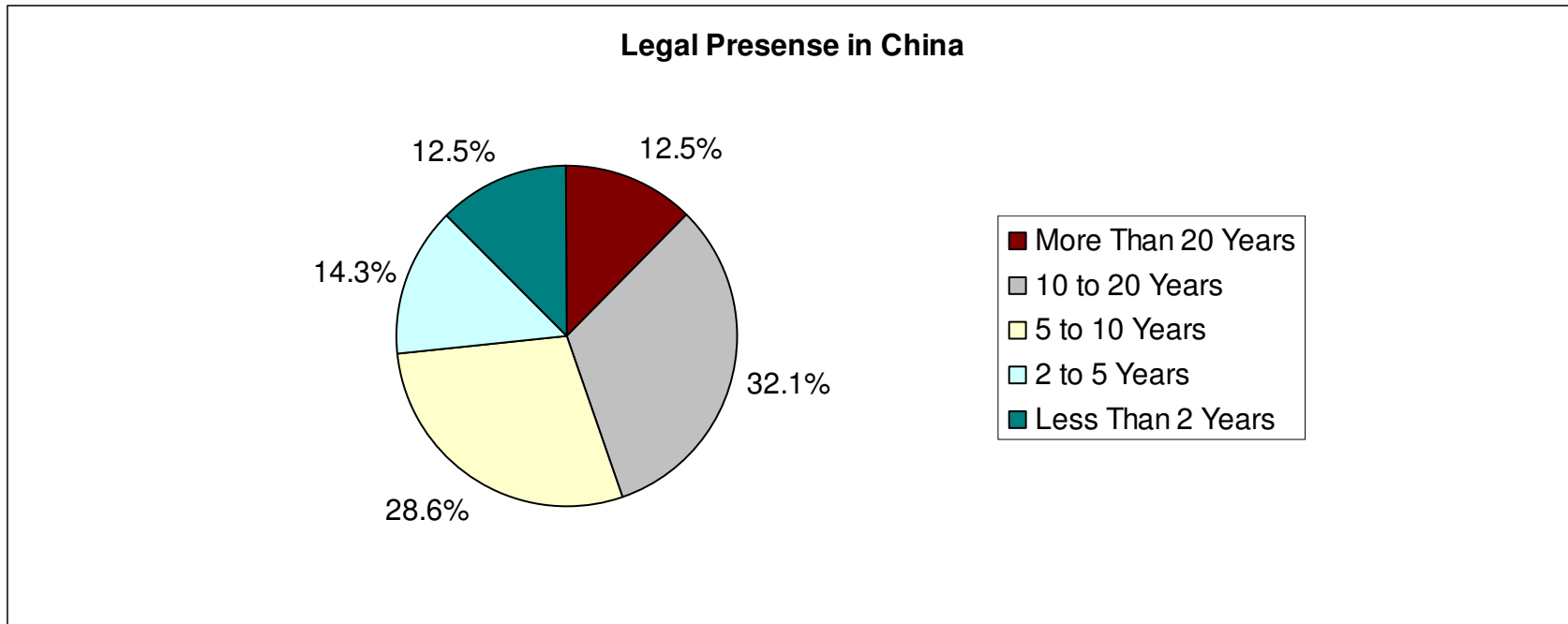
Data generated from this report will focus on supply chain operations capabilities, sourcing, manufacturing, logistics service providers (LSPs) and future investment in China.

# China Office Role



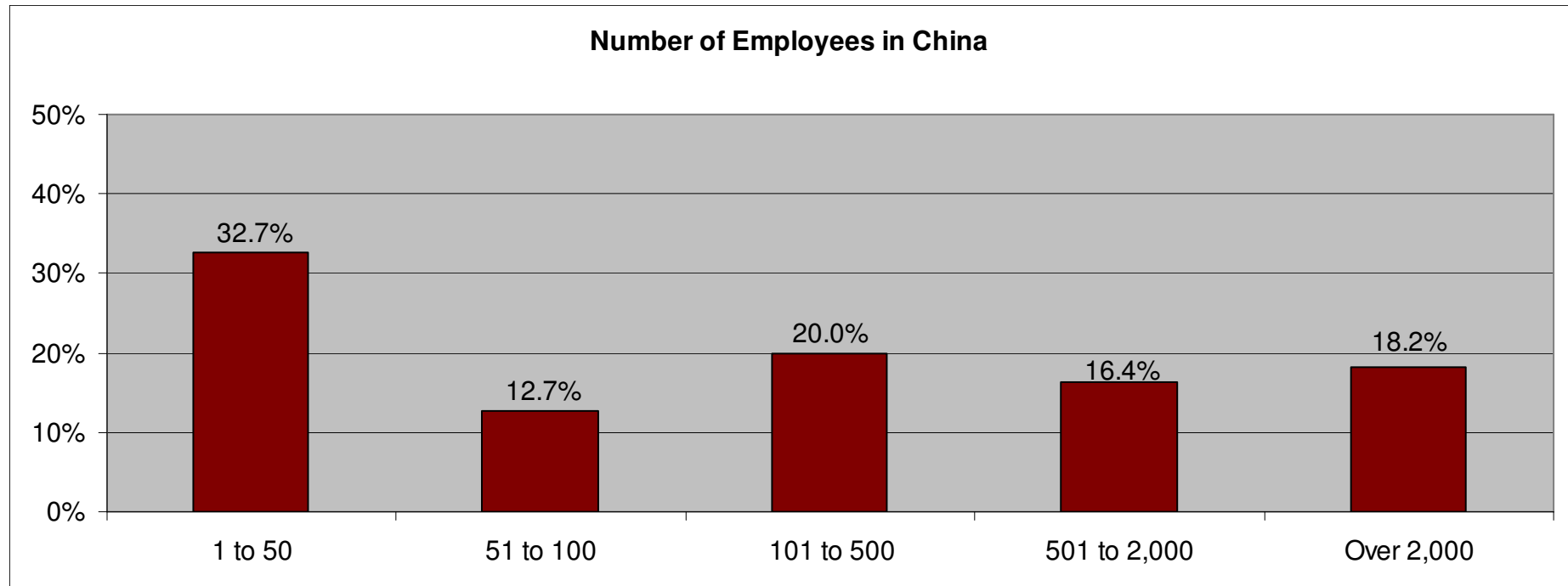
- For the 22% who selected “other,” they either have a sourcing office, a manufacturing operation or a product inspection office. And some do not have an office in China.

# Length of Time in China



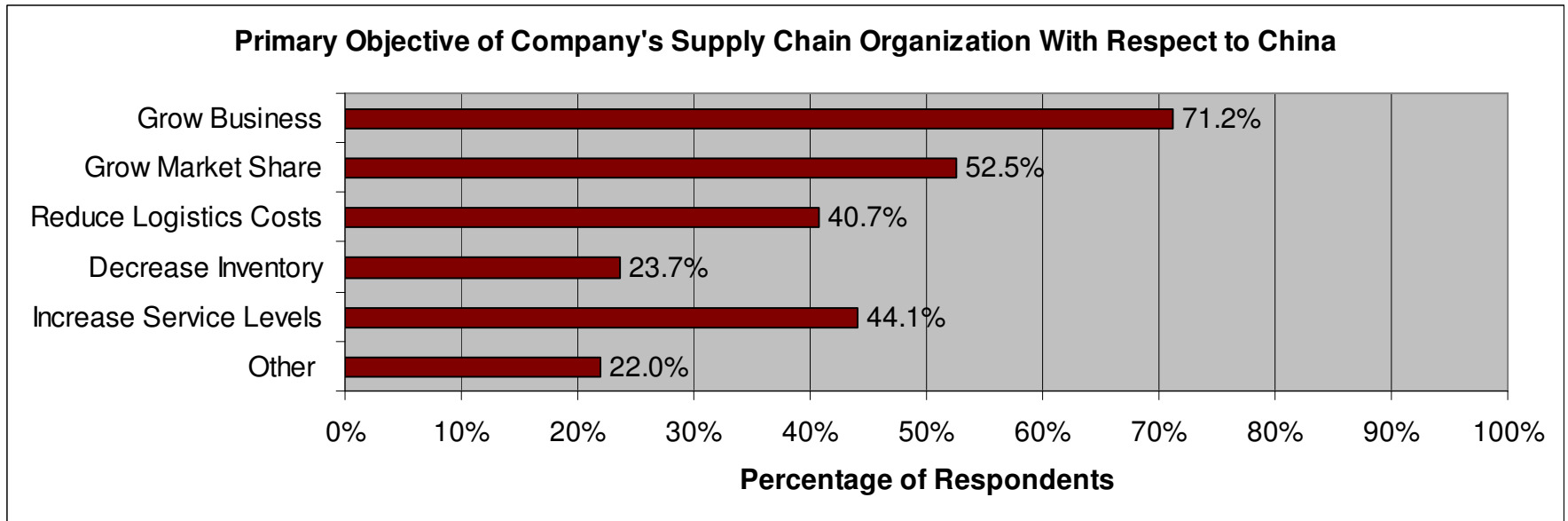
- Many companies have a long history of experience in China.
- While the average is approximately 10 years, some companies span more than 20 years with a legal presence in China.

# Number of Employees in China



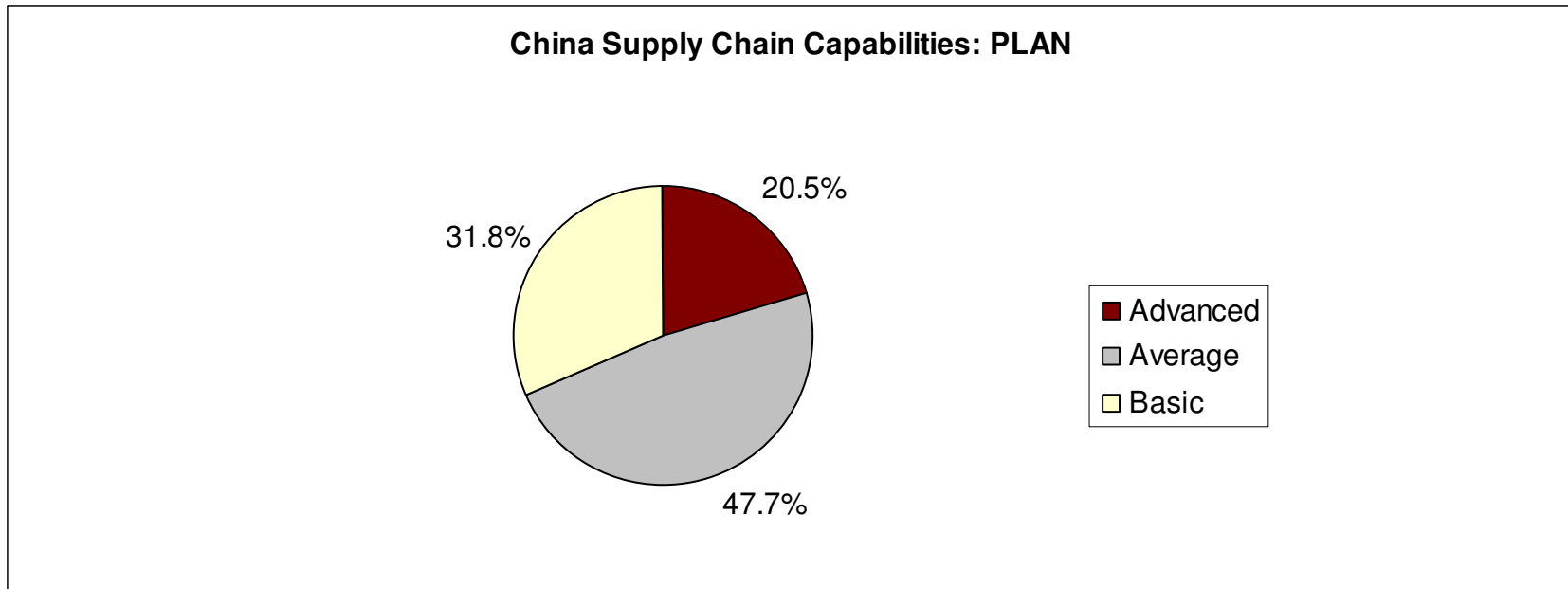
- Nearly a third of the respondents have fewer than 50 employees working in China.
- A significant number of companies have more than 2,000 employees in China. These are generally companies that manufacture in China.

# Primary Objectives



- Most companies are in China to grow their business and increase market share. Two other key objectives are boosting service levels and reducing logistics costs.

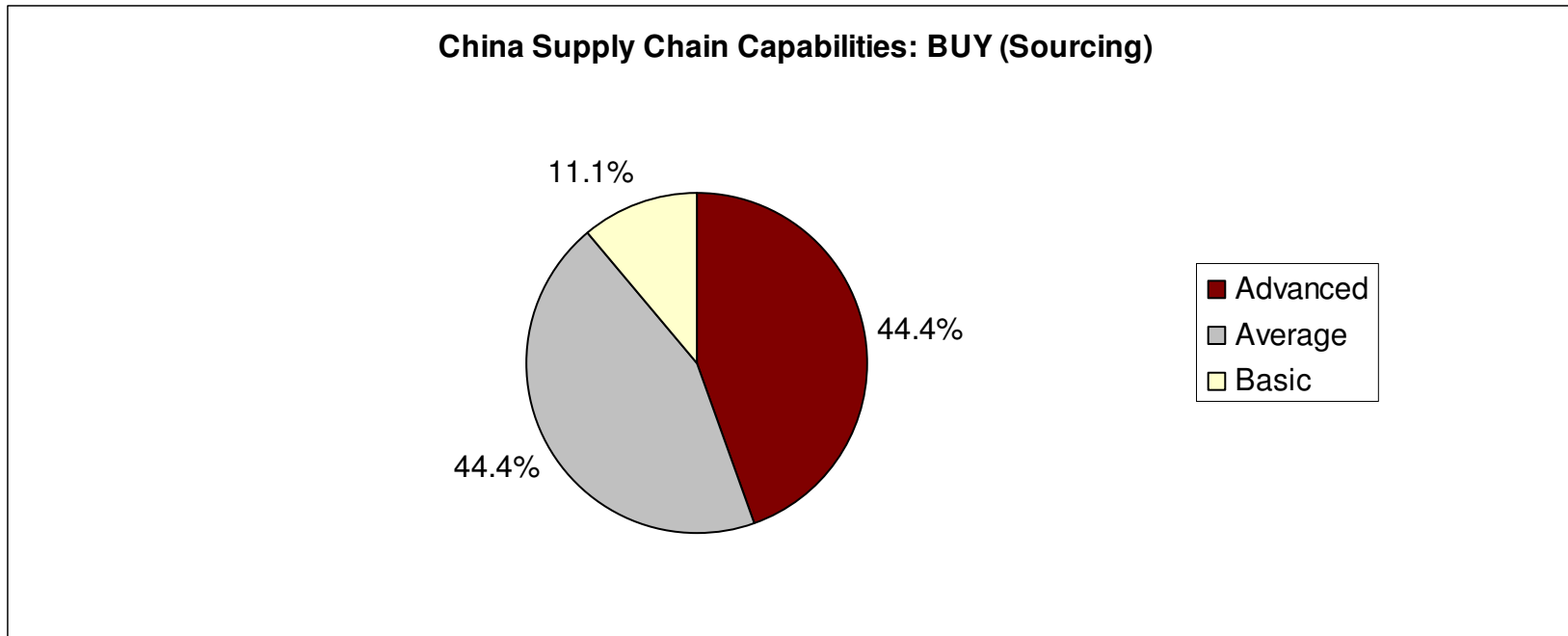
# China Supply Chain Capabilities



- With only 20% of operations containing advanced capabilities, supply chain planning is not a particular strength in China.

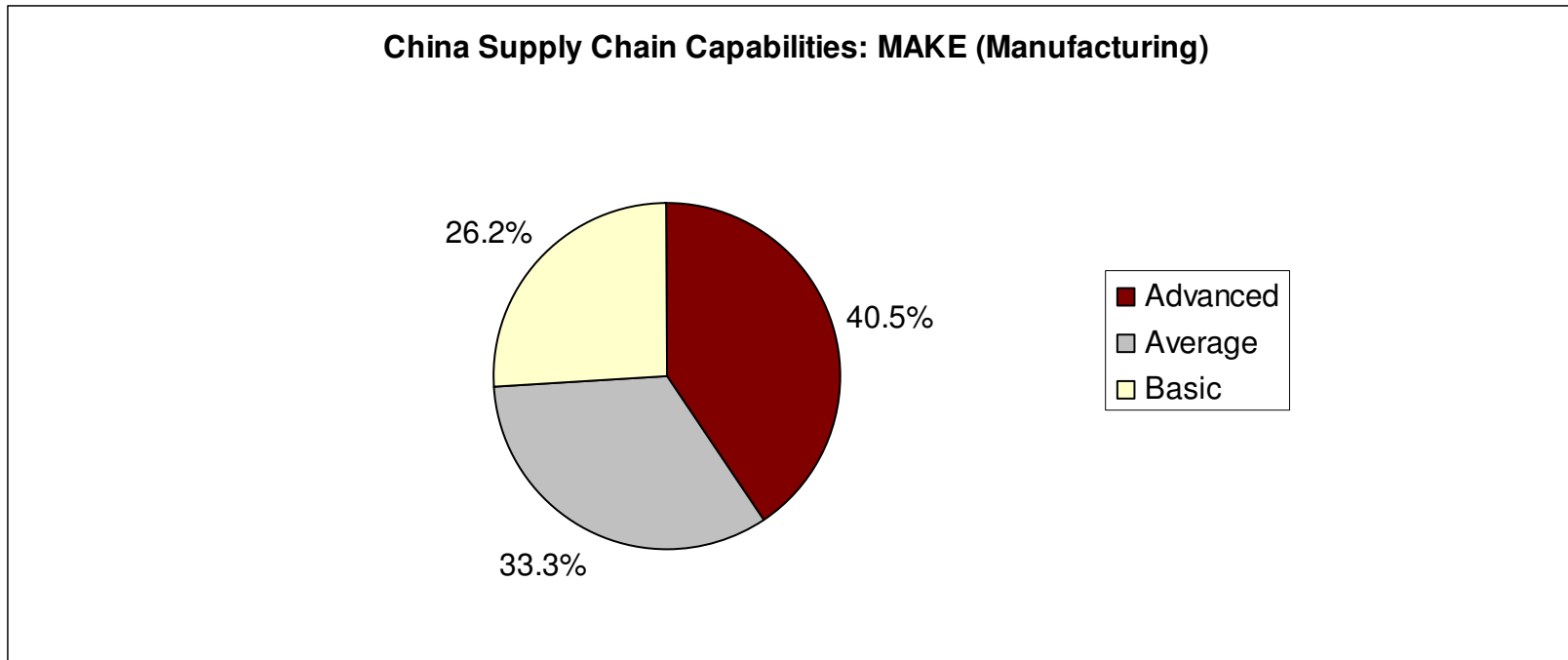


# China Supply Chain Capabilities



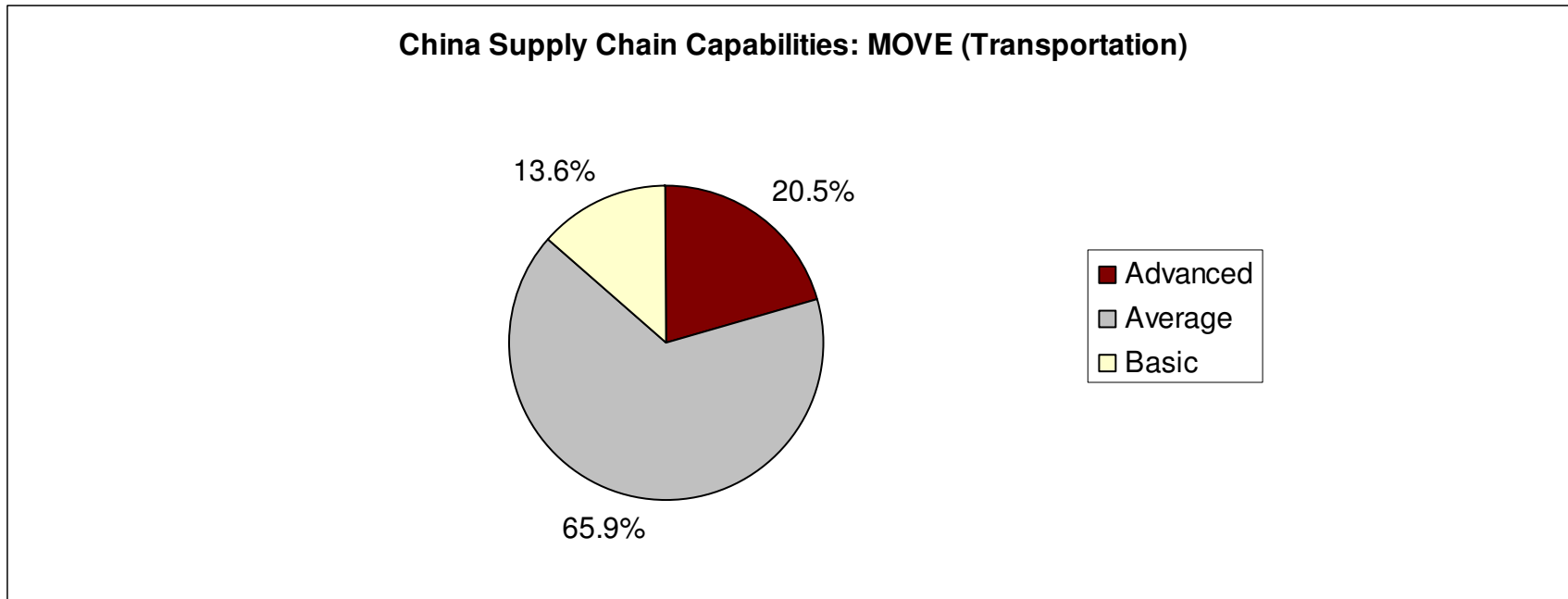
- The buy (sourcing) function is a strength of many companies in China.
- Forty-four percent of companies in China have advanced capabilities.

# China Supply Chain Capabilities



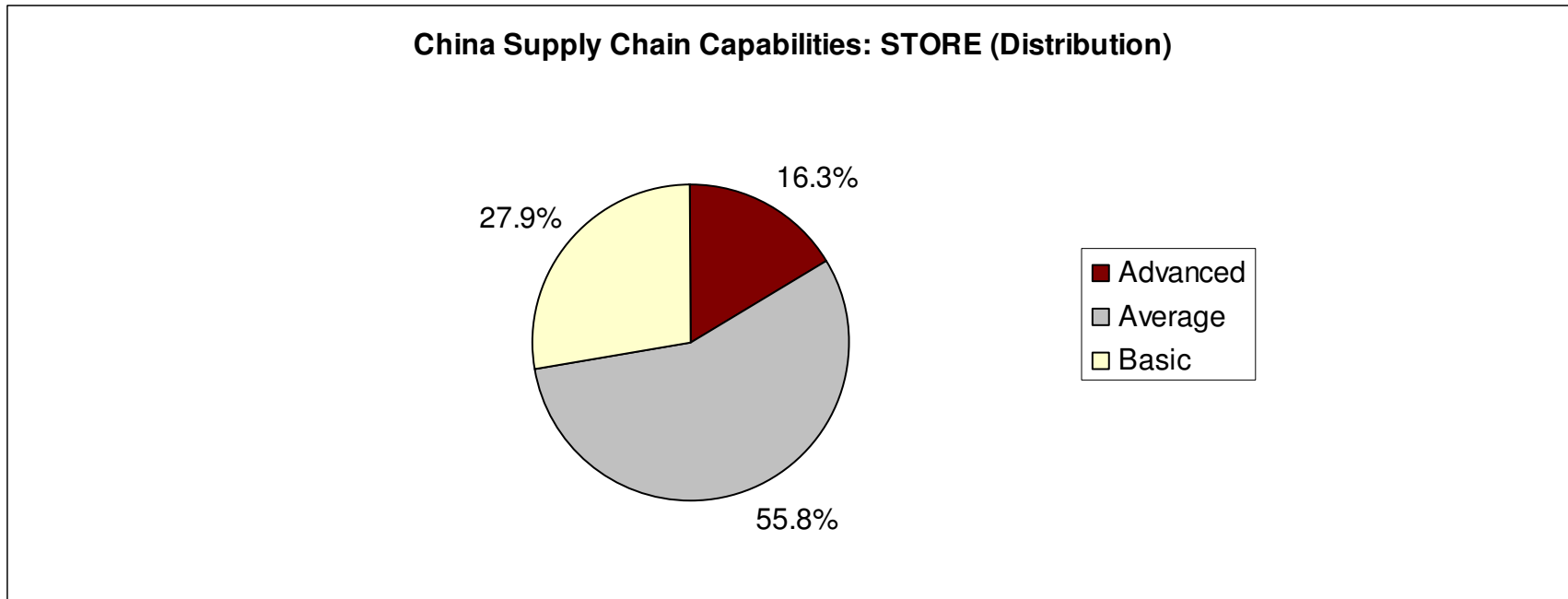
- More than 40% of companies view manufacturing as an advanced strength, while 26% consider their capabilities as basic. This indicates that there are companies on both ends of the capability spectrum.

# China Supply Chain Capabilities



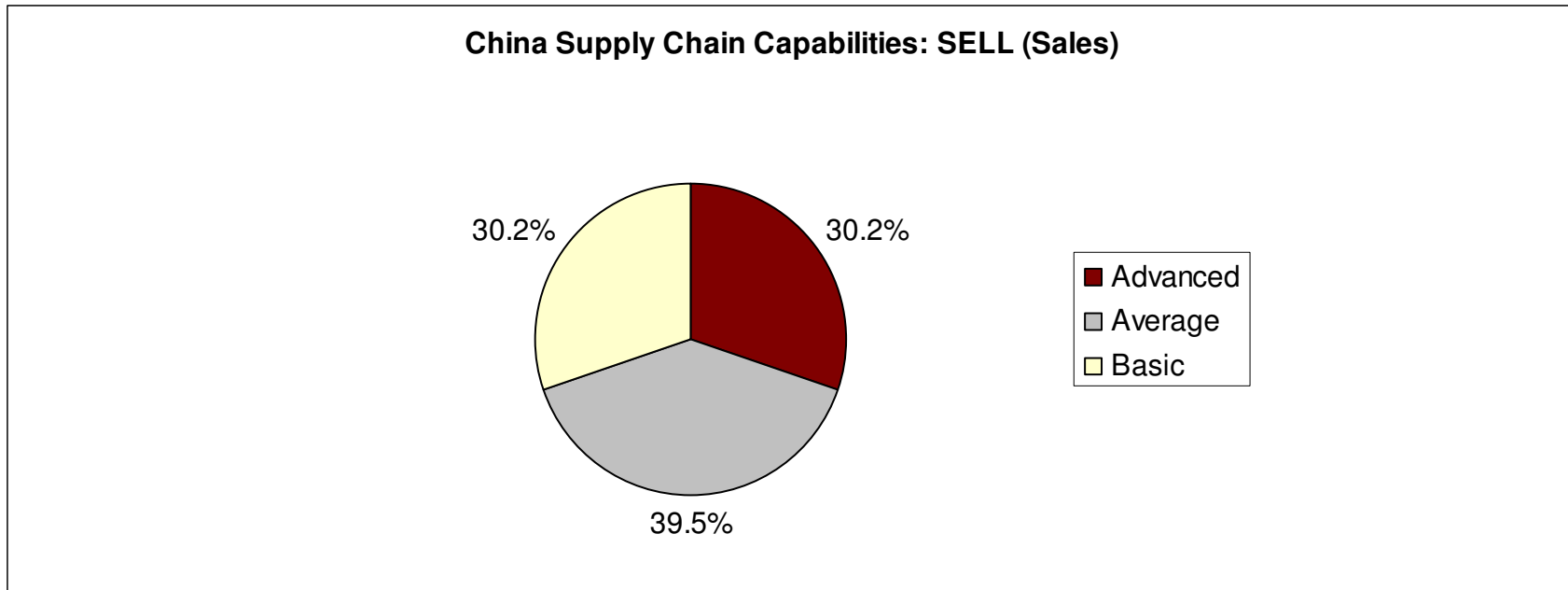
- Nearly two-thirds of companies view their transportation capabilities as average.
- Movement of goods in China is still seen as a challenge.

# China Supply Chain Capabilities



- Generally, companies in China feel that their capabilities for storing or distribution are average or basic.
- This is a great area of opportunity for most companies in China.

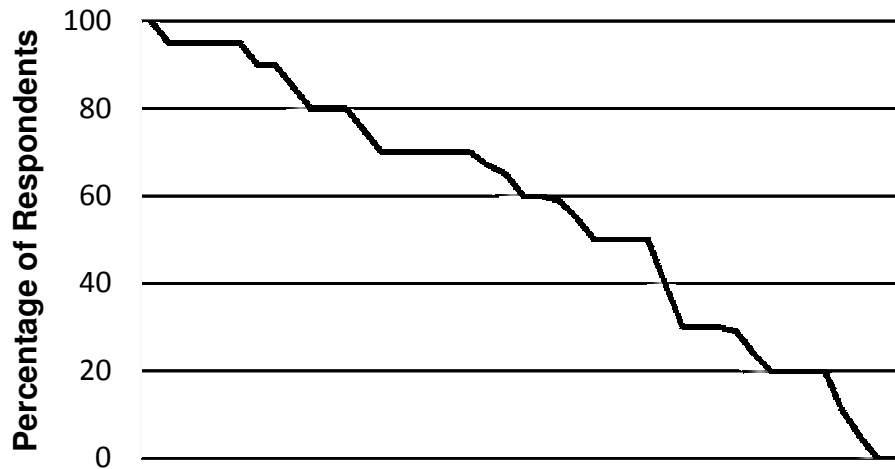
# China Supply Chain Capabilities



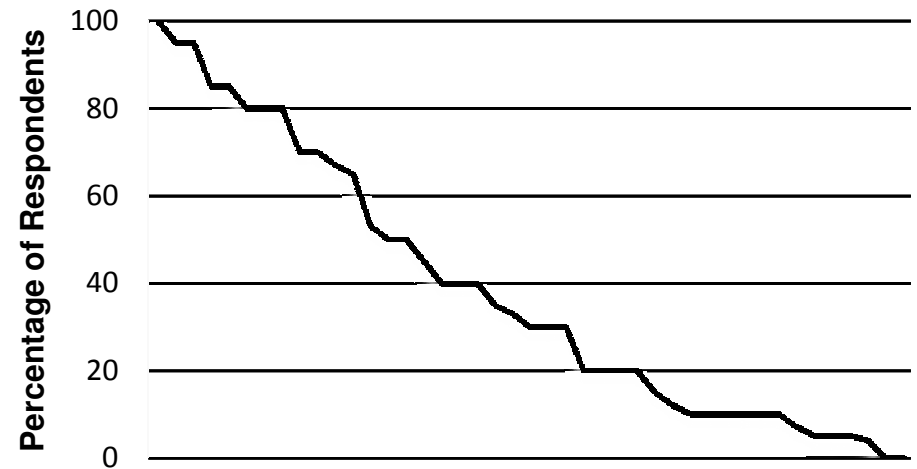
- Responses are evenly spread for companies that feel their SELL functions are advanced, average and basic.

# Sourcing

## International Sourcing

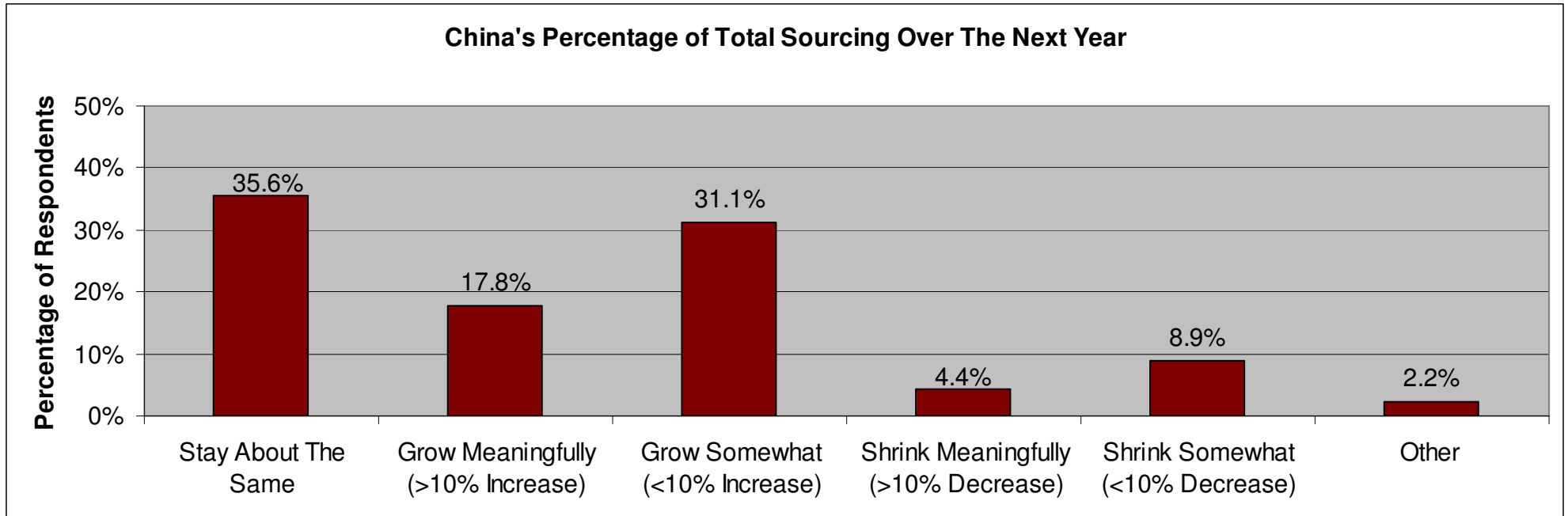


## China Sourcing



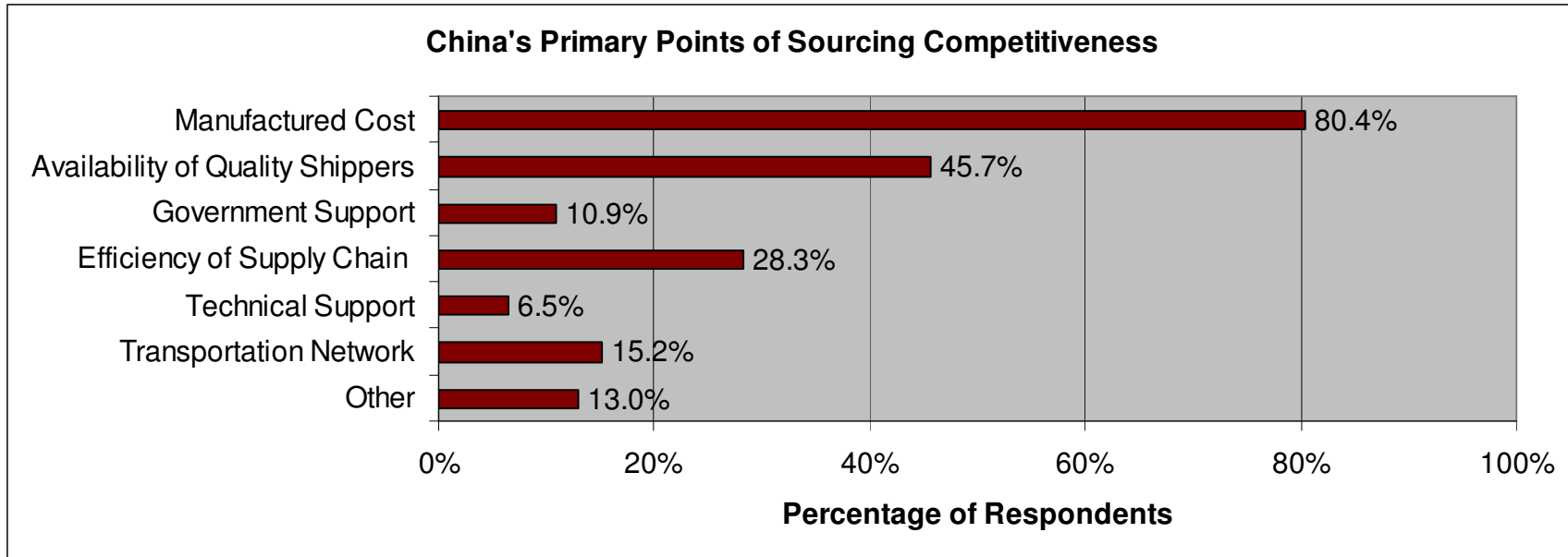
- An average of 56.3% of respondents internationally source products, while approximately 38.2% source products in China.
- China is a major location for sourcing activity.

# Sourcing



- Nearly 50% of respondents anticipate more growth of sourcing in China over the next year, while about 36% expect it to remain the same.
- This does not include companies that are beginning to source products from China.

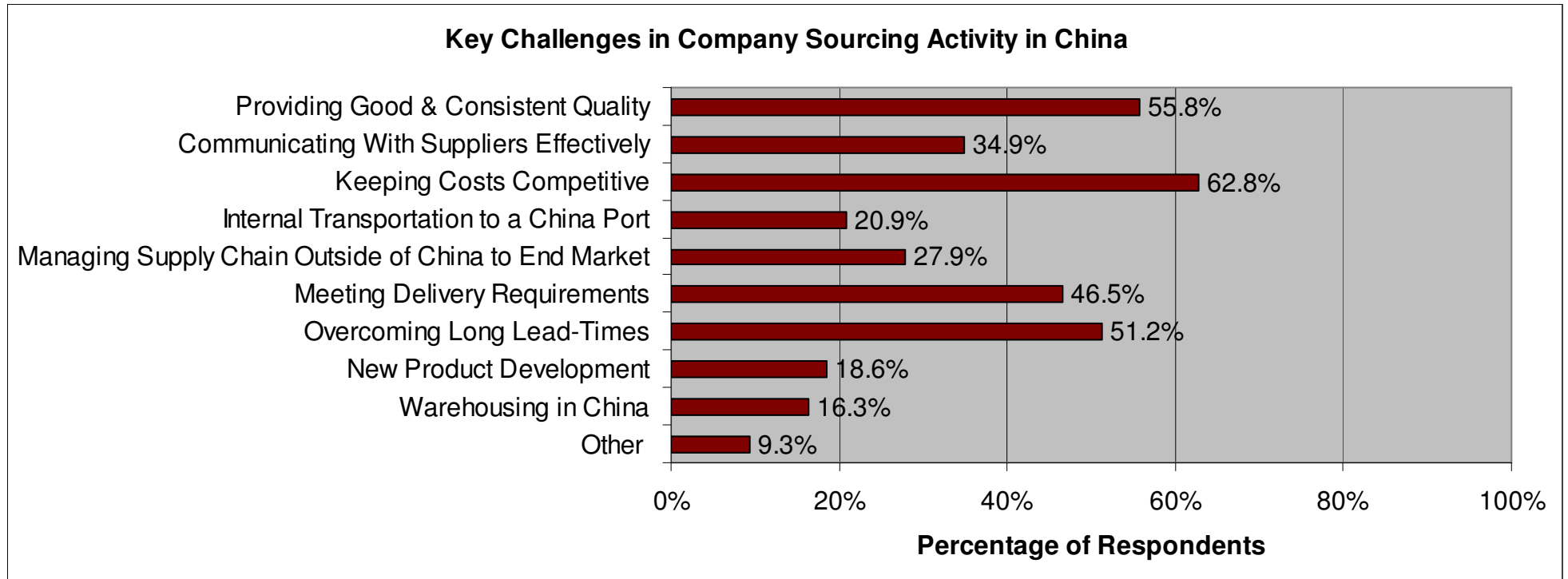
# Sourcing



- Major drivers of sourcing competitiveness are manufacturing cost, availability of quality shippers and efficiency of supply chain.
- Additional responses provided by participants include currency valuation, customization and market presence.

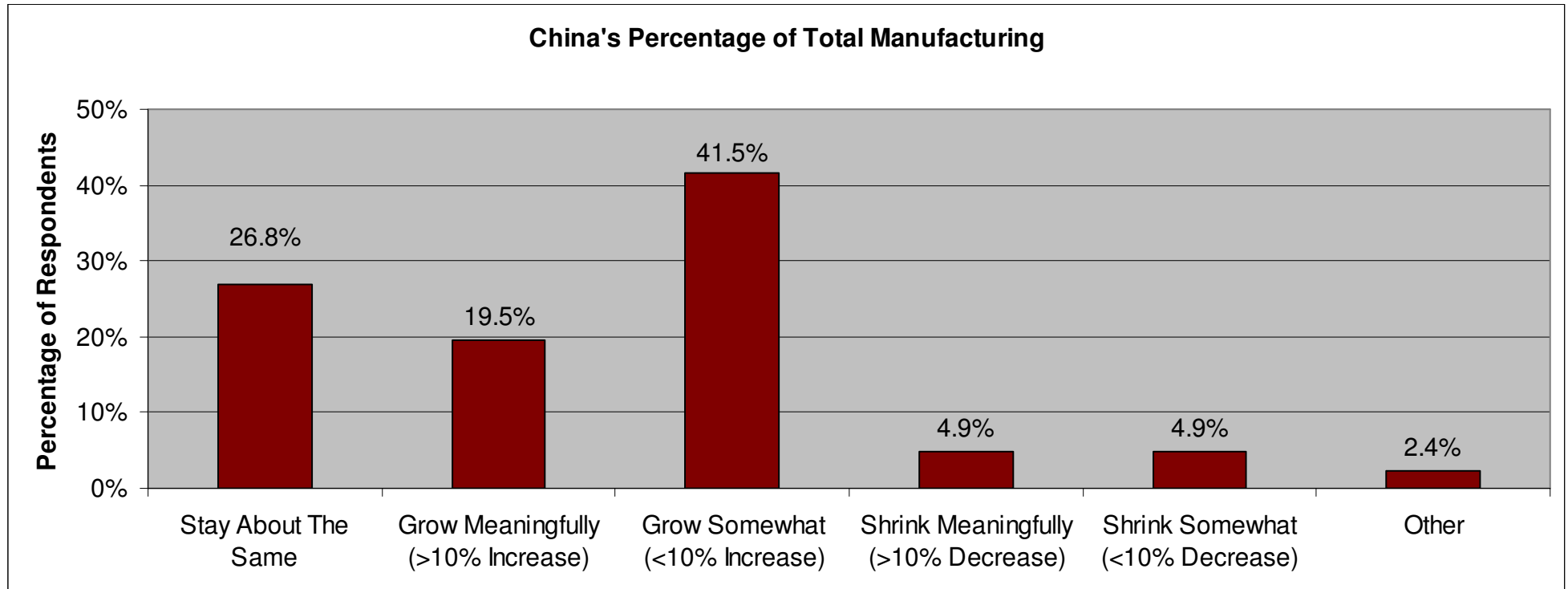


# Sourcing



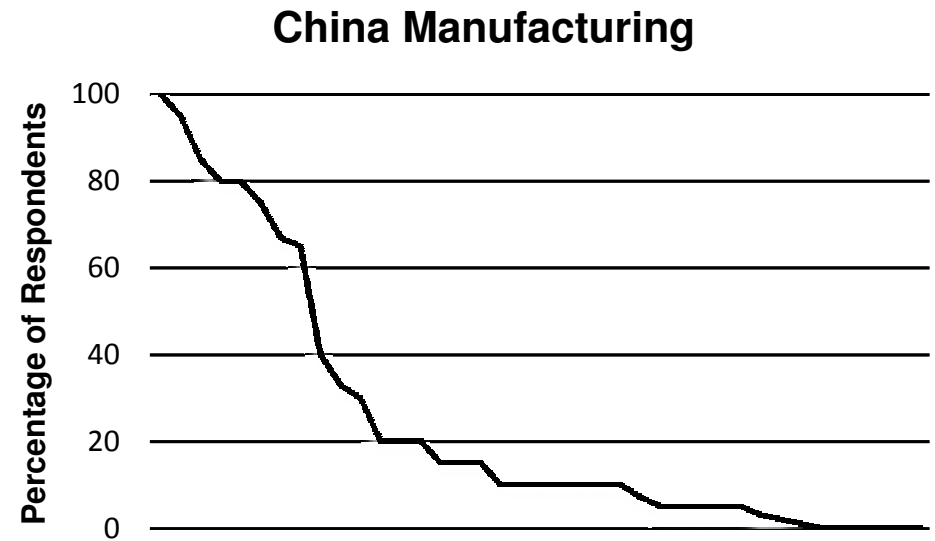
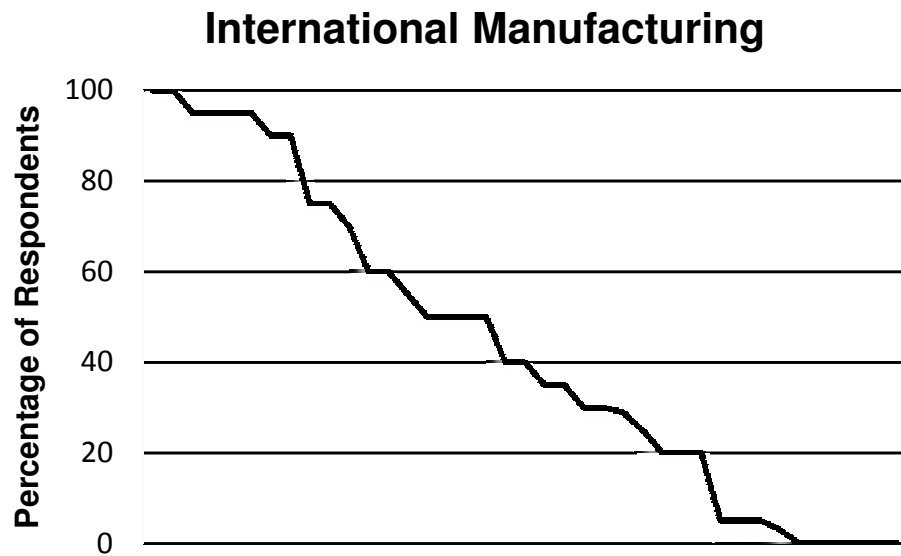
- The top four challenges of sourcing in China are keeping costs competitive, providing good and consistent quality, overcoming long lead-times, and meeting delivery requirements.

# Manufacturing



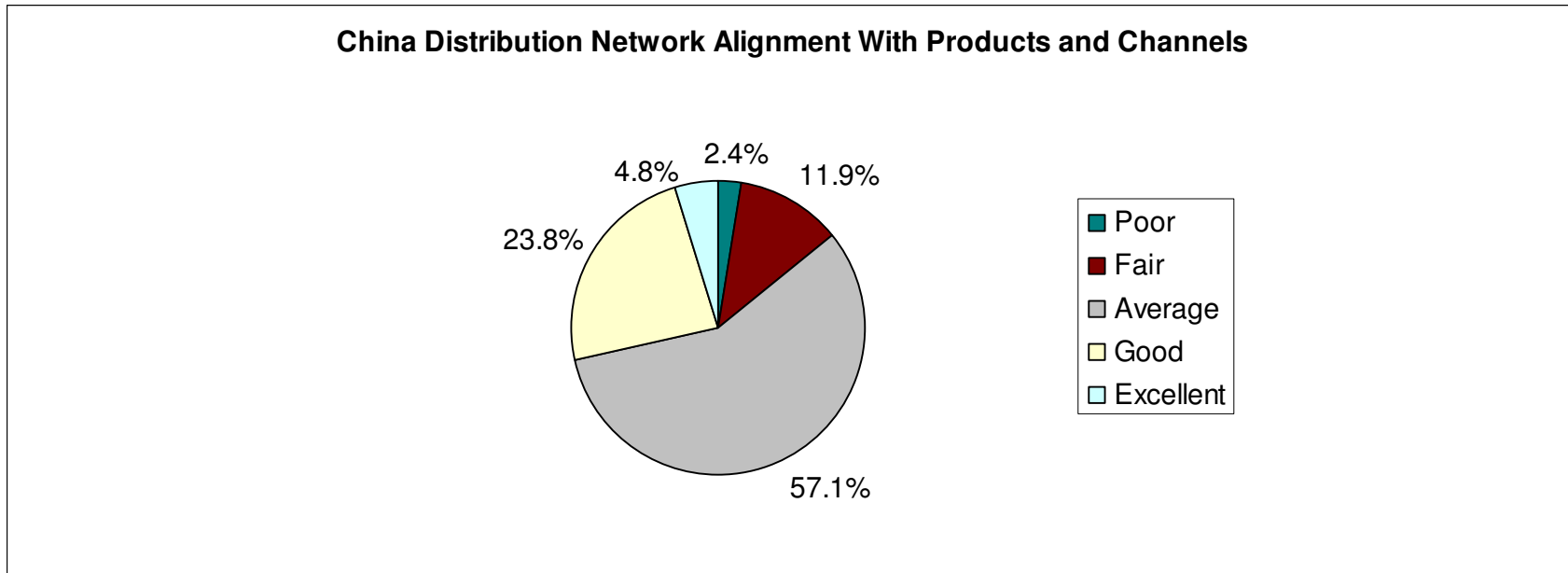
- The number of survey respondents that see growth in manufacturing over the next year far exceeds the number who believe it will shrink.
- About 27% of respondents see total manufacturing staying the same.
- This data indicates the potential for significant growth in China manufacturing.

# Manufacturing



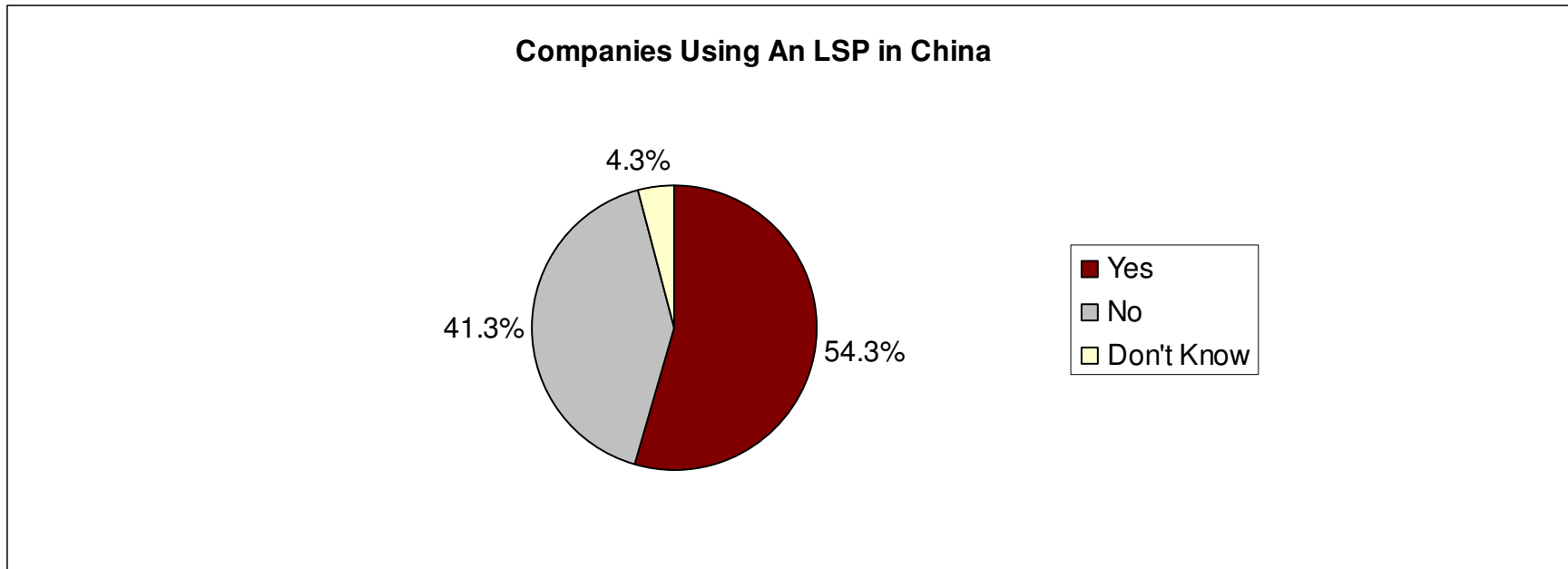
- An average of 43.5% of respondents manufacture internationally, while 24.7% manufacture in China.

# China Distribution Network Alignment



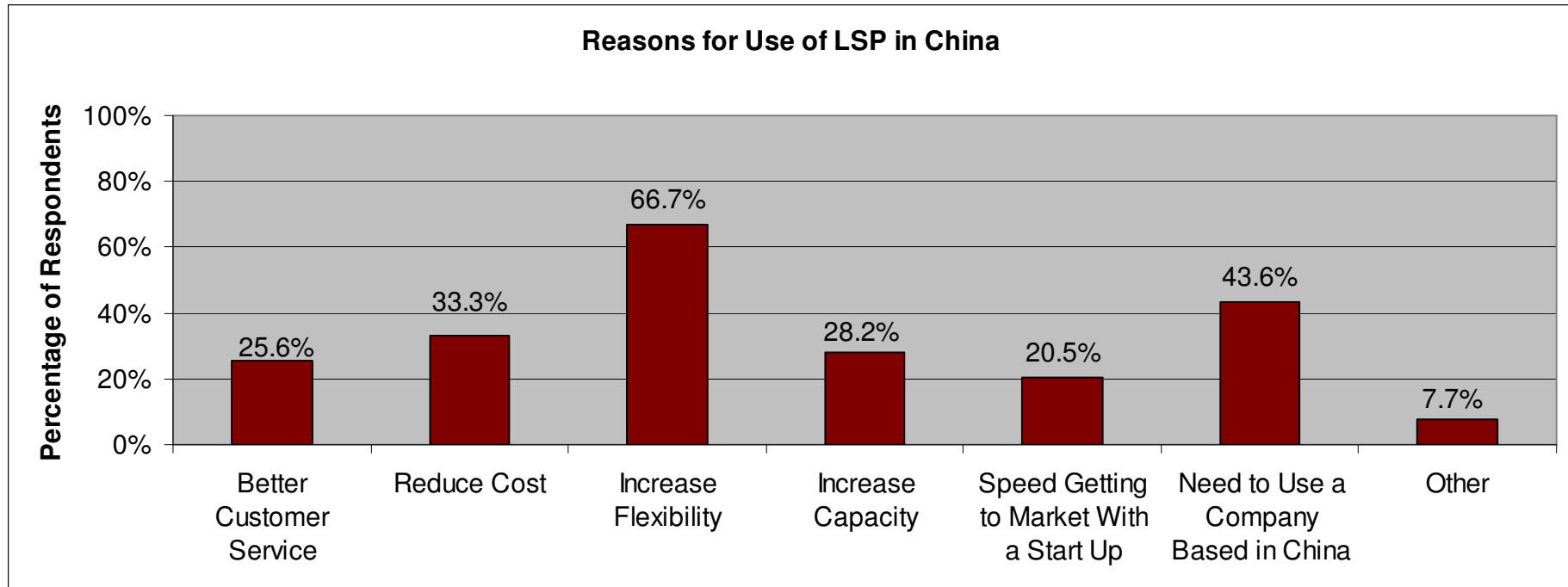
- Survey respondents rated how their China distribution networks align with products and channels on a scale of 1-5, with 1 being defined as poor and 5 being excellent.
- The majority of respondents say their distribution network is “average” when trying to align with products and channels.
- This alignment is an area in need of development.

# China LSP Usage and Reasons



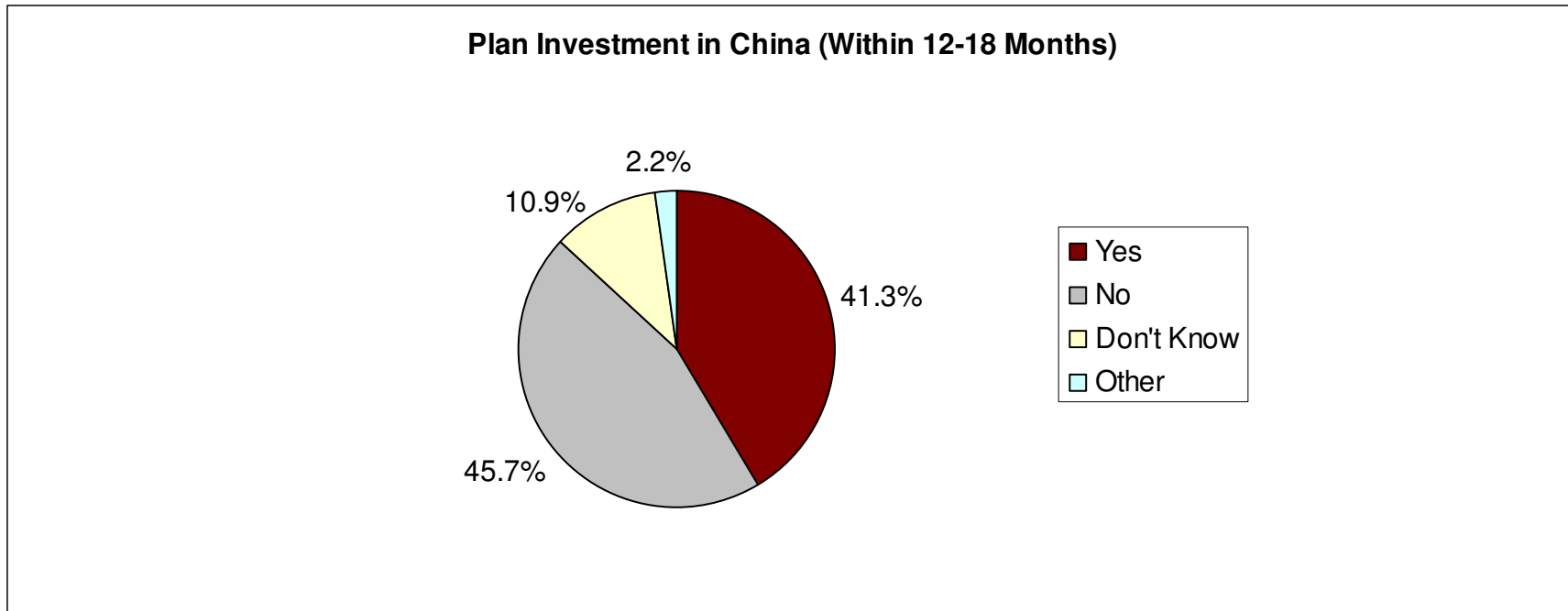
- More than 54% of companies use an LSP for distribution in China.
- Others use company resources and distribute products themselves.

# China LSP Usage and Reasons



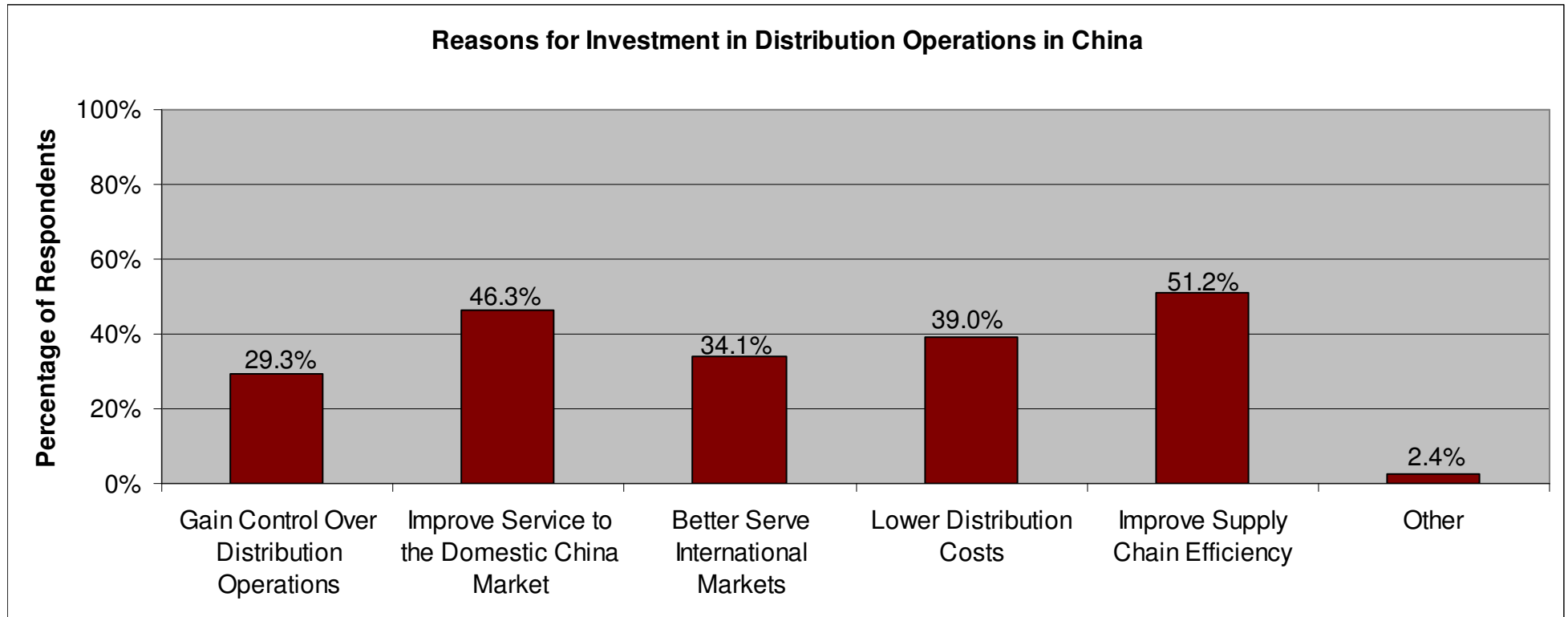
- The top three reasons that LSPs are used in China include increasing flexibility, the need to use a company based in China, and reducing costs.
- LSPs are also a good way to increase capacity and improve customer service.

# Investment in China



- More than 41% of respondents plan to invest in distribution operations within the next 12-18 months.
- Many companies are planning to invest in equipment and technology rather than buildings.

# Investment in China



- Reasons for investment in distribution operations range from increasing supply chain efficiency and improving service to China's domestic market to lowering costs and better serving international markets.



# Summary

Key points from the survey include:

- Most companies have been in China for many years and have experience with the China culture.
- Companies are in China to provide low-cost sourcing and manufacturing for the U.S. and China domestic markets.
- In the areas of distribution and transportation, operation capabilities are still improving and have a long way to go before they are equal to U.S. domestic supply chains.
- China sourcing and manufacturing have become a significant portion of companies' overall international operations.
- Over the next year, China sourcing is expected to continue rapid growth.

# Summary

- China's primary points of sourcing competitiveness are manufacturing cost, availability of quality shippers, and efficiency of the supply chain.
- The biggest challenges to sourcing in China include keeping costs competitive, providing good and consistent quality, and dealing with long lead-times.
- Companies' distribution networks in China are rapidly changing, making them less than optimal for all products and channels.
- More than half of the respondents already use an LSP in China because of increased flexibility, the need to use a company based in China and reduced cost.
- A large percentage of companies are planning investment in China supply chains to improve supply chain efficiency and service to the domestic China market, decrease costs, and better serve international markets.

# Report Authors

To learn more about supply chain operations in China, as well as benchmarking and best practices, additional resources are available to members through the Supply Chain Consortium: [www.supplychainconsortium.com](http://www.supplychainconsortium.com).

Qualified companies may join the Supply Chain Consortium's LinkedIn or Xing Group: [www.supplychainconsortium.com/rc/connections.asp](http://www.supplychainconsortium.com/rc/connections.asp)

**SUPPLY CHAIN EXCELLENCE**

**Bruce Tompkins**  
Executive Director

---

6870 Perry Creek Road  
Raleigh, NC 27616

(919) 855-5527 Office  
(919) 345-0479 Mobile

[btompkins@tompkinsinc.com](mailto:btompkins@tompkinsinc.com)

**TOMPKINS  
SUPPLY CHAIN  
CONSORTIUM**

**SUPPLY CHAIN EXCELLENCE**

**Chris Ferrell**  
Director

---

6435 Hazeltine National  
Suite 105  
Orlando, FL 32822

(407) 362-0369 Office  
(919) 624-3947 Mobile

[cferrell@tompkinsinc.com](mailto:cferrell@tompkinsinc.com)

**TOMPKINS  
SUPPLY CHAIN  
CONSORTIUM**