

German Companies in China – Logistics Processes in Transition

Update on the current state of logistics activities concerning German automotive, commercial and consumer goods and machine manufacturing companies in China.

Supply chain requirements in China have changed greatly in recent years. It is not just crossborder online retailing that is becoming more important. Growing expectations concerning sustainability and China's development into a significant sales market are also presenting new challenges for German companies. In our current study "German Companies in China – Logistics Processes in Transition" we look at how the logistics environment in China has changed since the last survey in 2011.

Important market: companies are sticking with China as a business location

German companies are firm in their commitment to China for the long term. They are adapting their business models to global developments without calling the location into question. This change is clearly indicated by the way the value chain of German companies in China has been transformed from a pure procurement market to a production and assembly location to an attractive sales market. While large firms are pressing ahead with local manufacturing for the Chinese market, small and medium-sized enterprises (SMEs) are curtailing production and assembly. The main reasons for this development are rising wages as well as a lack of qualified employees. Stagnation can also be seen in companies' procurement activities for their home markets or other regions. At the same time, companies are expanding their marketing and sales activities and after-sales services in China. In doing so, they are responding to China's growing significance as a sales market.

Better marks: companies have a more positive view of the range of services offered by logistics providers

In the eyes of German companies, logistics service providers in China have improved their performance in many areas. Compared with 2011, logistics companies have been rated significantly higher in the areas of special warehousing, safety standards, just-in-time delivery and risk management. However, quality-assurance aspects such as employee qualifications, hygiene standards or quality management as a whole are seen as having slightly declined overall. Logistics competence is growing at different rates across industries, although the degree of digitisation was rated equally by all of the companies surveyed. While one out of four companies gives top marks to logistics companies on the Chinese market, the majority of respondents places them more in the mid- to low range.

Short supply: qualified employees are scarce

It is becoming increasingly difficult for German companies to find qualified logistics employees in China. This is especially true for the automotive and machine construction industries. In contrast, retail and consumer goods companies view the current developments more positively than in the past. The results also show that large companies have much less difficulty finding employees than SMEs.

Companies are restructuring: owning their own fleet is now an option

The majority of companies leave transport and customs clearance to external logistics service providers. Compared with 2011, the amount of internal warehousing has declined. Companies have either completely dissolved their storage operations or outsourced them. Things look different for the transport of goods, however, where there is a trend towards increased internal processing. Consequently, many more companies now see having their own fleet as a viable option. In 2011, almost all companies surveyed considered a lack of quality to be the main obstacle to outsourcing to logistics specialists. Today, a loss of flexibility is the most frequently cited reason. Every second company currently sees IT security issues and data protection as a problem.

Non-Chinese logistics providers: drop in customer satisfaction

The majority of the companies surveyed are highly satisfied with the performance of the carriers and customs service providers they work with. The ratings for Chinese carriers have improved, while non-Chinese competitors received worse ratings than in 2011. For customs-related services, the survey shows rising satisfaction only for internal service providers. External service providers – and especially customs clearance executed by Chinese customs service providers – received a significantly smaller number of top marks. However, this has not resulted in any major changes in the choice of provider to date. Chinese logistics companies were able to improve their ratings in the areas of transport, warehousing and supply chain monitoring. Strikingly, ratings for international service providers consistently dropped across all areas. Although they still receive significantly more top marks in many areas compared with the Chinese logistics companies, the Chinese competitors are catching up.

Choosing a logistics company: price has become less relevant

When selecting a logistics provider, punctuality is the most important criterion for German companies in China. Flexibility and sufficient capacity play a central role for three quarters of the companies surveyed, while an effective quality management system, security aspects and IT security and data protection were listed by two thirds of respondents. Compared with the other criteria, price has become less important. The reputation of the company – for example, in social networks – is currently considered irrelevant by every second company surveyed.

Contract logistics: opportunities remain unutilised

Contract service providers are losing customers in China. While in 2011 every fourth company surveyed commissioned a logistics company with added-value services, the rate has now dropped to just 16%. External solutions have lost their appeal, especially when it comes to recycling, procurement, and repairs or the supply of replacement parts. Companies are turning to internal solutions to increase efficiency and flexibility and lessen their dependence on service providers. But contract logistics service providers were able to buck the trend and increase the number of orders in the area of returns management. In 2011, companies had high hopes for contract logistics, and they currently see even more potential. Logistics providers need to ask themselves how they can unlock this potential. Whether or not there is an increase in the number of orders is not insignificantly linked to customer satisfaction. Although only a third of customers report being highly satisfied with the performance of their contract logistics service providers and award top ratings, even fewer report being very dissatisfied (6%).

Environmental protection: German companies focus on renewable energies

In terms of environmental protection efforts, German companies are focusing more on rail transport. They are also using significantly more electricity from renewable energy sources than in 2011. However, only 8% of German companies in China issue carbon footprint reporting for their activities in the country. Although every second company expects to see an increase in environmental protection activities in their own industry over the next two to three years, this is not reflected in these companies' own plans.

The present report is based on the results of a telephone survey of 200 companies. An equal number of companies (50) was recruited from each of the following four industries: machine construction, automotive, retail, and consumer goods. The 200 computer-assisted telephone interviews were conducted from April 18th to May 19th 2017 by an independent market research institute (Kantar EMNID). This ensures both the protection of personal data as well as the anonymity of the interviewees.

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