

# Logistics : Future & Challenges

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# Agenda

- Logistics Industry Overview
  - Challenges Faced by the Logistics Industry
    - Upward Trend on Operating Costs
    - Change of Supply Chain Model
    - Fast Pace Development of nearby areas
    - Human Resources & Talents
  - Way Forward

## Trends



# Fast & Fundamental Global Change is upon us

### Globalization moves to a Multi-Polar world

- Indian population grows as fast in 1 week as the EU population does in 1 year
- The Chinese middle class is consuming more and more of what it makes
- Major new hubs are being built around the world

### Technology led complexity accelerates

- Much of the world is now on-line, mobile commerce is developing quickly
- Humble delivery equipment (containers, totes, hangers) become intelligent
- Increasing dependence on automation

### Cost and Time to Market Pressure

- Rising oil prices slowing the growth in global trade
- Marked shift from Air to Ocean par in Technology and Healthcare companies
- Shorten lead time/production cycle; quick turnover

### Terrorism has created a new cost pressure

- Container scanning will slow ports down, compliance will tie up management
- Security issues can cost hundreds of dollars

### The Smarter are getting Greener

- Carbon: Sustained investment hampered by short term who pays argument
- Energy costs steeply rising; Efficiency/carbon abatement actions needed
- Water supply is becoming the next sustainability issue for some

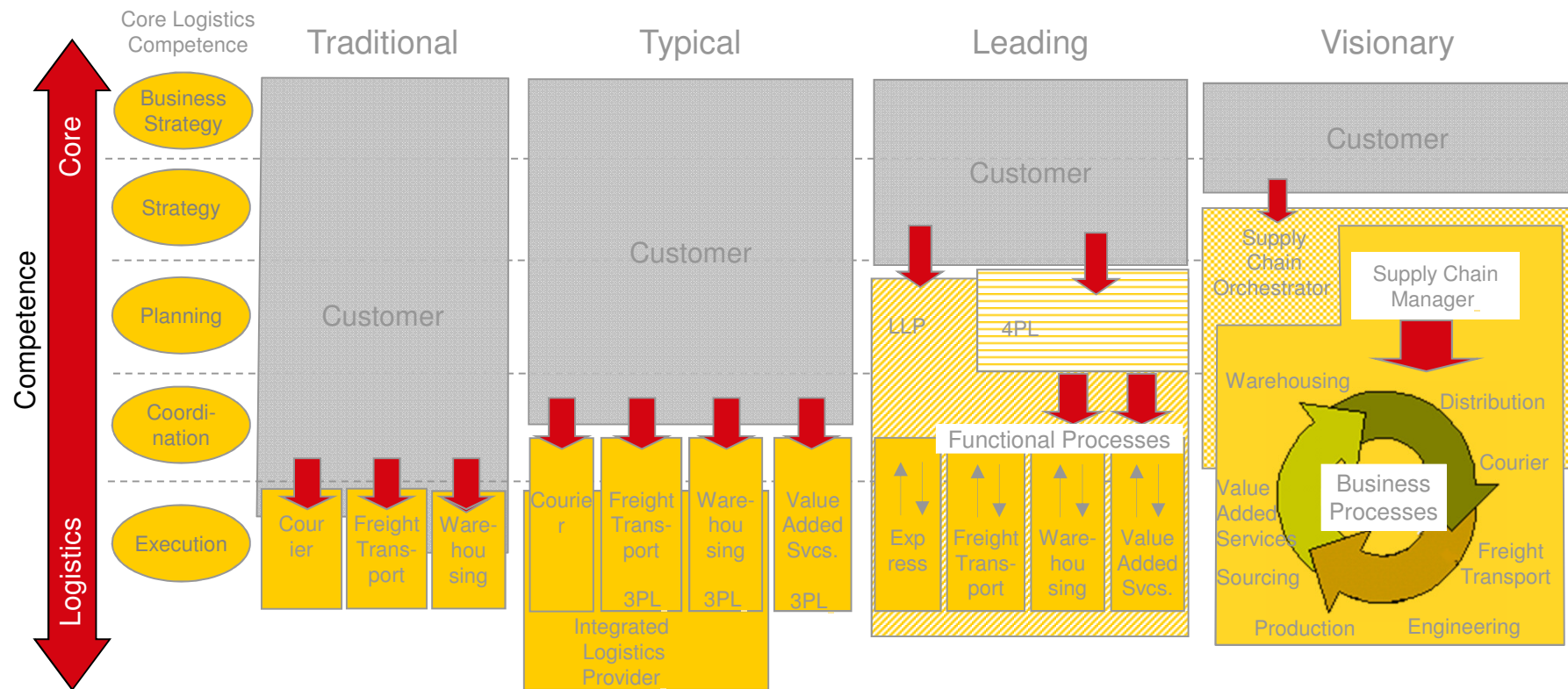
### Who will win the War for Talent ?

- Imbalance of “white-collar” talent is limiting growth in the developing world
- Wal-mart report “Blue-collar” labour shortage in the US as a growing issue
- “Employers of choice” make training a priority

*..these are opportunities if we grasp them, real threats if we do not*

# Characteristics

## Evolving Business Models in Logistics Outsourcing



- Single function transactional relationship
- Local / regional reach
- Physical asset heavy, process execution
- Cost plus management fee
- Fixed upfront cost to change



- Strategic multi-functional partnerships
- Global, door-to-door coverage
- Bring integrated IT solutions ready to use
- Continuous innovation (cost & service)
- Risk/Gain share
- Reduced need for capital

## Hong Kong Logistics Industry Overview

- Trading & Logistics is one of the four key industries in Hong Kong contributing approximately 25.5% of the total GDP
- Hong Kong International Airport has been named the busiest cargo airport which handled over 4 million tons of freight
- Hong Kong Container Port's throughput ranked the 3<sup>rd</sup> among world's port in 2012 which handling 23 million TEU
- Excellent Port Infrastructure
- Presence of over 3000 logistics service providers

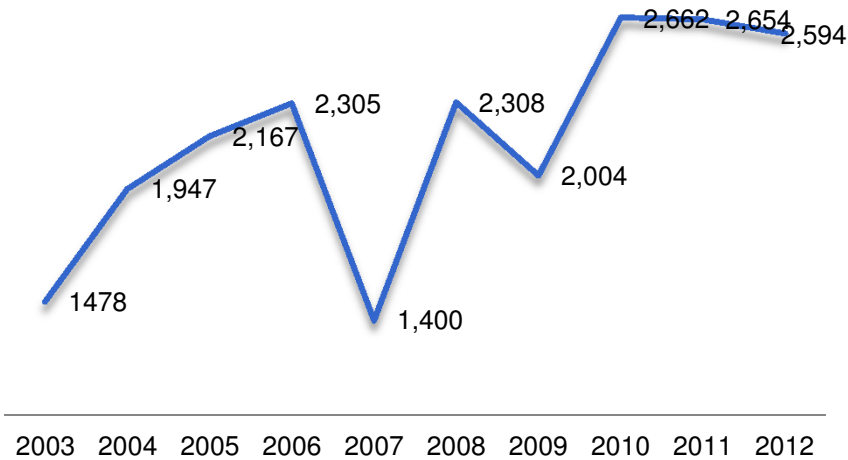




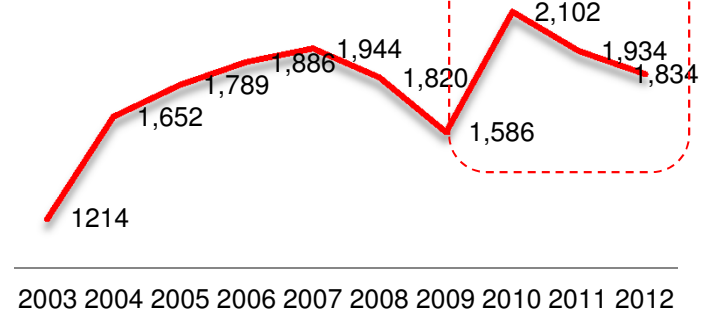
# Hong Kong Air Freight & Logistics Industry Overview

- Hong Kong's airfreight export has been dropping while re-export volume continues to grow

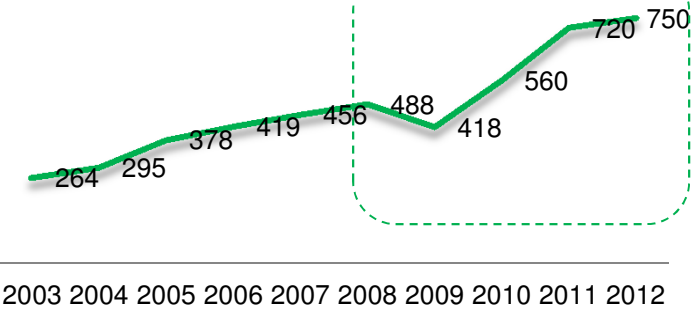
**Total AFR Export Vol. 2003 - 2012  
(Million Tonnes)**



**Total AFR Domestic Export 2003 - 2012  
(Million Tonnes)**



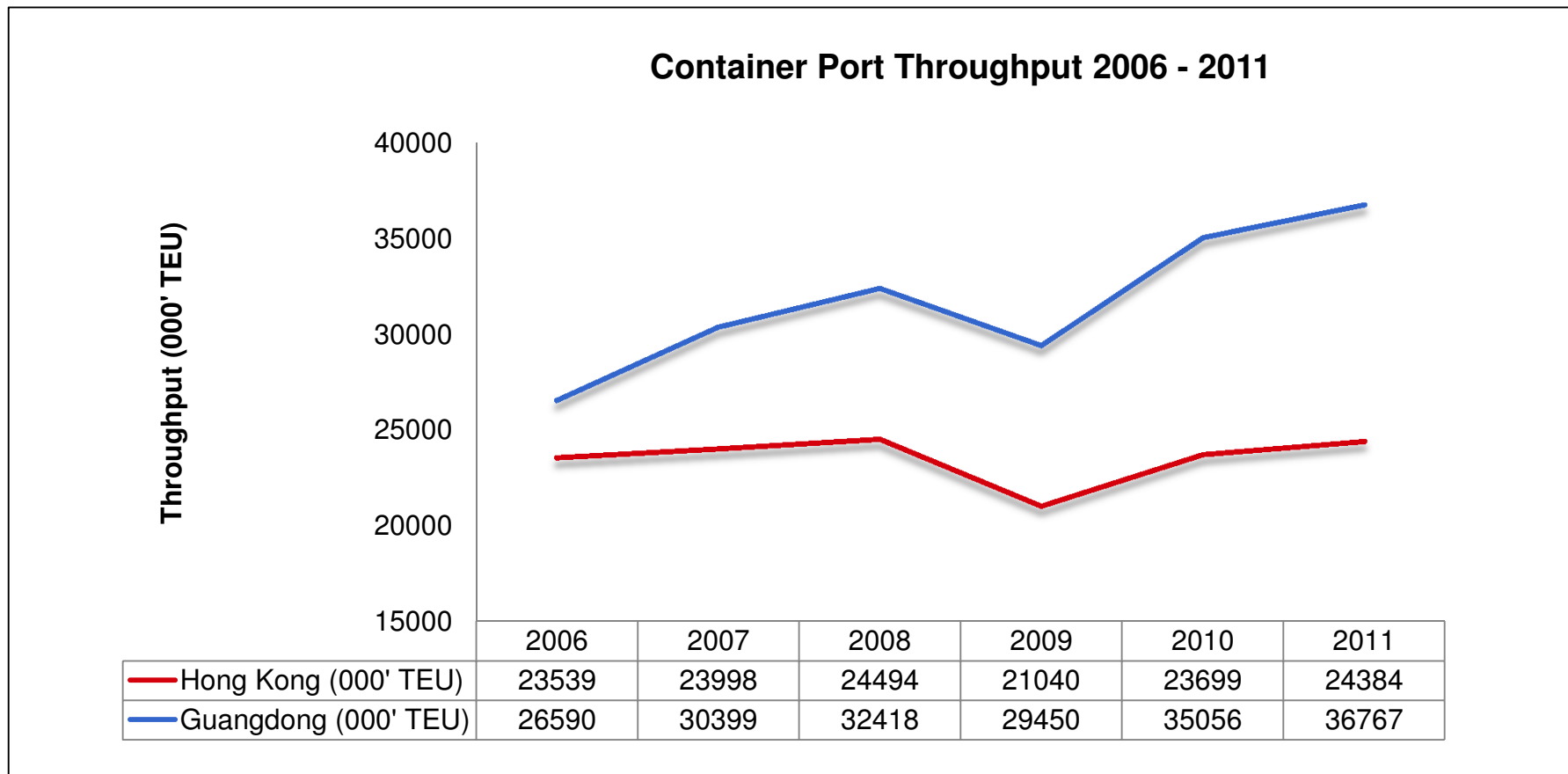
**Total AFR Transshipment 2003 - 2012  
(Million Tonnes)**



Sources: Hong Kong Census and Statistics Department

# Hong Kong Ocean Freight & Logistics Industry Overview

- The throughput of Guangdong ports (adding up Shengzhen & Guangzhou) has already surpassed Hong Kong
- Cost competitiveness is a prime reason



Sources: Hong Kong Marine Department

# Agenda

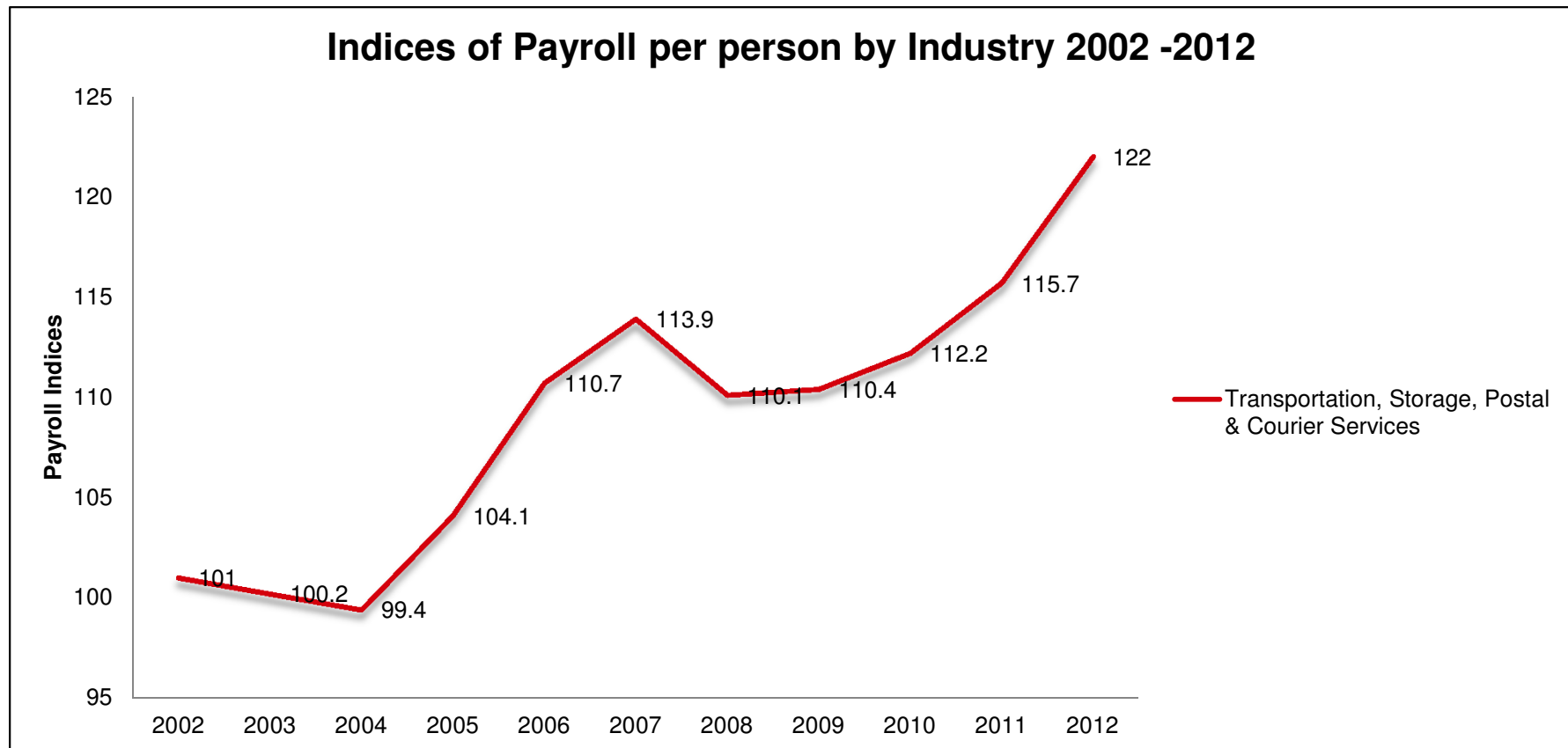
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# Challenges Faced by the Logistics Industry

## 1. Upward Trend on Operating Cost

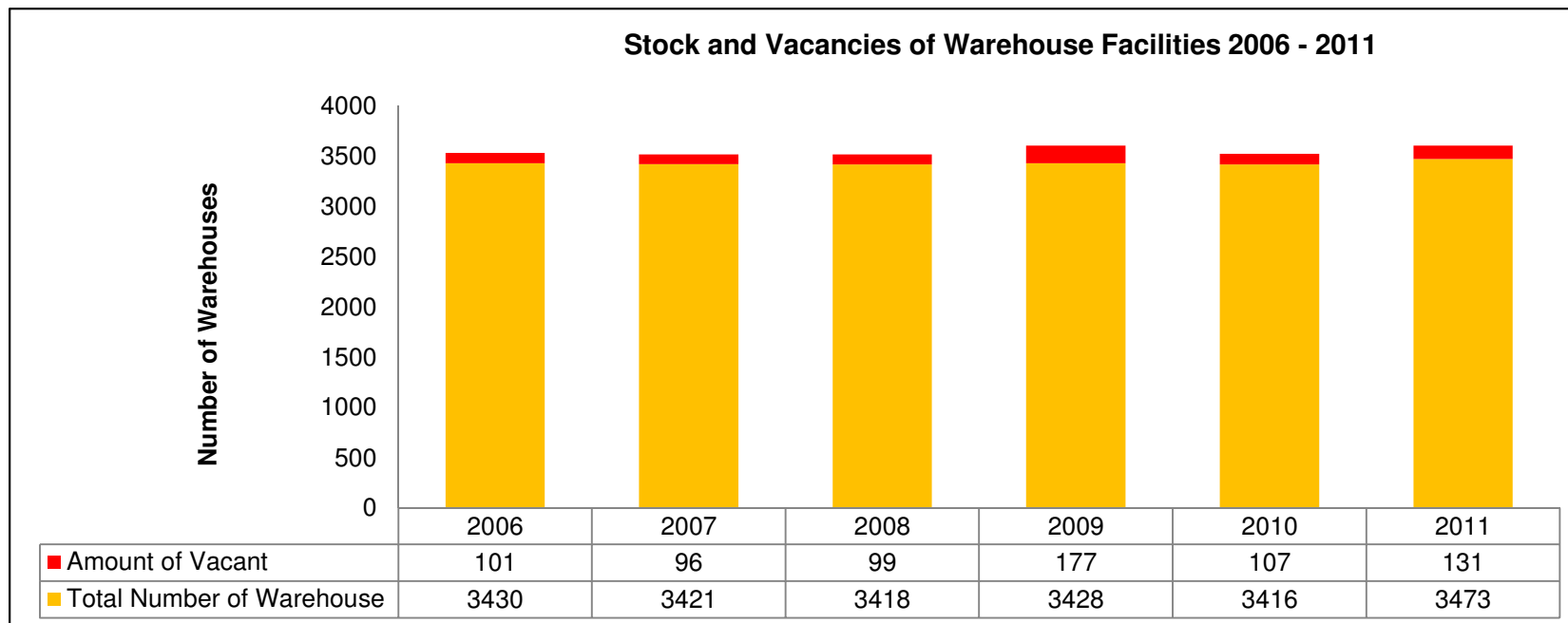
- Labour cost has been increasing in logistics sector over past 10 years
- The increase in last 3 years was particularly sharp



Sources: Hong Kong Census and Statistics Department

## Challenges Faced by the Logistics Industry

- Lack of supply of new logistics land/facilities
- Shortage of warehouse facilities and the occupancy rate is up to 96% in 2011
- Lease went up average 10% every year



Sources: Hong Kong Census and Statistics Department

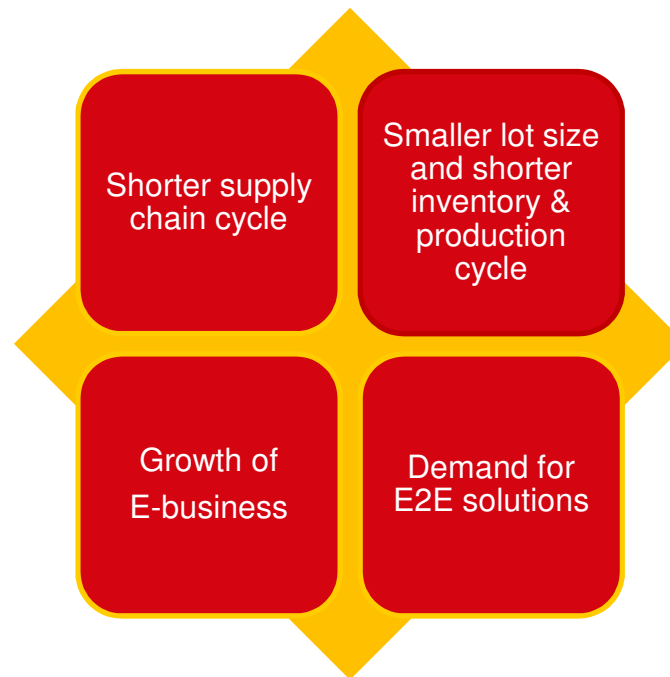
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- Challenges Faced by Air Freight and Logistics Industry
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# Challenges Faced by the Logistics Industry

## 2. Change of Supply Chain Model

Macro-environment has been changing rapidly and the expectation from customer changes as well:



- Demand for more customer-oriented, solution based, responsive and flexible services

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# Challenges Faced by the Logistics Industry

## 3. Shift of Production Pattern

- Labour intensive production in China has been shifting from Pearl River Delta area to mid-west area
- Highest growth of industrial GDP was seen among mid-west provinces such as Qinghai, Anhui, Shanxi, Xichuan, etc
- Guangdong industrial sector growth has slowed down and only ranked among the least growing provinces
- Other than domestic shift, many production plants are also moved to other developing countries in ASEAN such as Indonesia, Vietnam

**2012 GDP Growth on Industrial Sector**

Province	GDP Growth Rate
Qinghai(青海)	32.28%
Anhui(安徽)	30.60%
Hunan(湖南)	28.83%
Shanxi(陕西)	28.49%
Shanxi(山西)	27.95%
Xichuan(四川)	27.71%
Ninxia(宁夏)	27.02%
Hubei(湖北)	26.93%
Qongqing(重庆)	26.84%
Neimenggu(内蒙古)	26.40%
Guangdong(广东)	14.85%

- Needs international outlook, language and cultural sensitivities to overcome the fast paced changes and expansion

Sources: National Bureau of Statistics of China

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## Challenges Faced by the Logistics Industry

Human Resources and Talents are critical in the industry

- Increase in Labour costs
- High Staff Turnover
- Lack of new joiners (par. junior/operation levels)
- Work conditions less attractive (paper works, warehouse, long working hours, location ...etc)
- Changing skills requirements (like customer service, solutions design)
- Mobility and language capabilities

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## Way Forward

- In order to maintain Hong Kong's competitiveness:
  1. Increase the supply of logistics infrastructure
  2. Upgrade of logistics capabilities
  3. Increase the efficiency and provide more value-added services
  4. Strengthen entre port capabilities
  5. Enhance Export and Import Ordinances
  6. Offer trainings and develop logistics professionals