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WORLD MARITIME UNIVERSITY

Shanghai, China

**STUDY ON XY GROUP DEVELOPING 3PL IN
THE XIAMEN XIANGYU BONGDED
LOGISTICS PARK**

By

Zeng Wei

China

A research paper submitted to the World Maritime University in partial
Fulfillment of the requirements for the award of the degree of

MASTER OF SCIENCE

INTERNATIONAL TRANSPORT AND LOGISTICS

2007

DECLARATION

I certify that all the material in this dissertation that is not my own work has been identified, and that no material is included for which a degree has previously been conferred on me.

The contents of this dissertation reflect my own personal views, and are not necessarily endorsed by the University.

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ABSTRACT

Title of Dissertation: **Study on XY Group developing 3PL in the Xiamen Xiangyu bonded Logistics Park**

Degree: **Master of Science in International Transportation and Logistics**

With rapidly development of the economic globalization, advanced communicational technology and worldwide transportation network, the modern logistics has become the essentially fundamental industry. The main supporting point of this field is the third party logistics. In China, although the 3PL has experienced the 20 years development and taken the initial shape, it still exist the major discrepancy from the professional third party logistics and lack of the innovative and value-added service. Narrowing the studying area on the bonded logistics park redound to concentrate the principal content of the service providers and contribute to the further research.

Under the research background of the Xiangyu Bonded Logistics Parks, this dissertation is focused on the XY Group, one of the logistics organizations providing the 3PL service in the logistics park. As the investigational object, it has been analyzed and discussed how to operate and update its 3PL service based on the special area--- bonded logistics parks and look forward to enhancing the effective running of the logistics park.

From the respective of the logistics company, the author principally pays attention to the functional development of the logistics service and study on the necessity and effectiveness of the 3PL operation for settling the practical matters. For another hand, observing the strategy and decision-making of the company development, the author study the logistics market demand, objective customers and the programming and operation of the logistics business, and then put forward the market-oriented operational model for the 3PL development, which not matter benefit for the

successfully integrated performance of the logistics parks, but also useful for the better and further development of the company's logistics business.

Key words: BLP, 3PL, integrative logistics, Bonded zone

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LIST OF ABBREVIATIONS

BLP : Bonded Logistics Park

LP: Logistics Park

3PL: Thirty-Party Logistics

SCM: Supply Chain Management

Chapter 1 Introduction

1.1 Study Background

From Dec. of 2003 to Aug. of 2004, eight bonded areas are approved to establish BLP by the Chinese State Council including Shanghai and Tianjin. Currently, the bonded logistic parks of Shanghai, Dalian, Zhangjiagang, Tianjin, Ningbo, Qingdao, and Xiamen have been operated within the customs' inspection and receipt. Now, all of the BLPs have achieved the primary results, involving prolonging the chain of product process; improving our trade models changing and promoting; altering the situation of import weighting export. In addition, the logistics parks obviously increase and push export purchasing and radiation of inland, speeding up the pace of the integration with regional economy. The customs experience the useful attempt to improving the inspecting modal, which greatly stimulates the development of international transit shipment. Customs modal improvement assists to forming a importing& exporting, double action's product chain and of bonded logistics business from export processing area, bonded area, bonded logistics central, BLP to oversea, so the cargos can complete the conversion from the original products to the finished products in the bonded condition and without leaving the country, greatly satisfying the development requirements of the multinational organizations.

As the only BLP in the economic zone of West Taiwan Strait, Xiamen Xiangyu BLP's establishment and expansion meet the demand of XIAMEN economic development. The BLP not only resolves the "one day Hong Kong traveling" problem which incurs because of the firms inside the BLP eager to promptly export-tax rebate, but constructing a essential platform for XIAMEN Port development. Inside this region, XIAMEN strives to operate international transit shipment, international purchasing, and international distribution together with international re-export business. For one thing, this platform can improve the competition of XIAMEN Port, expressing the key node of international logistics and

supply china management. For the other thing, it builds up the nice interface of economy and trade between XIAMEN and Taiwan. Therefore the construction and functional promotion of the BLP will vigorously accelerate XIAMEN economic and logistics development.

The bonded area is a special economic region with the “inside country and outside customs” quality and aims for developing international trade, export processing, warehousing logistics, based on learning useful experience of international exporting area and free-trade zone and combining with major preferential measurements of national enactment including customs-duties exempt, customs broadening and exchange control. And it also can be viewed as the highest level of opening to the outside world. The logistics park is a logistics node with advanced, strongly intensive function and large scale, which provide the centralized outlay in space for various logistics facilities and equipment as well as the diverse logistics organization with distinct function. In other words, the logistics park consists of variously functional and intensive logistics nodes, which involving professional transport central and warehouse central, distribution central, information processing central, composite transferring station and circulation central, so the logistics park had been proved as the one of the effective solution to construct the efficiently logistic operational platform. The BLP, taking intensive logistics’ advantage of Logistics Park into bonded area with special preferential policies, not only improve the integration of logistics operation and shorten the execution time of supply chain, but also provide the convenient circumstance to clear customs through special policies and accelerating the transporting speed.

Now the plan and construction of Logistics Park is experiencing the stage of functional improvement and rapid growth, the government’s directional guideline and polices focused on the macro logistics industry is extremely significant. Beside that, the logistics company, as the node of the supply chain and network, also need to be concentrated on its development and operation especially those company with

potential to develop the 3PL, like XY Group. During the researching period, I found that most of the papers and books are focused on the logistics park's plan, outlay and construction as well as the strategic development suggestion for LP's operators, however, there is few of research about the logistics company inside the LP. The XY BLP enjoys the excellent regional conditions of logistics operation, so it deserves to study and discuss the operation and development trend of Logistics Company inside the BLP.

1.2 Synopsis of the Literatures

1.2.1 Features of the BLP

The BLP can be viewed as a carrier for creating crowd effect of multiple logistics enterprises and a special economic region practicing tax protect. Being supported by the dual advantages of port and bonded region, there are four major functions of BLP, international transition, international distribution, international purchase and international trade.

There are four features demonstrating the BLP as follows. Firstly, the logistic region is a special administrative region and supervised by the Custom, which will connect with the national "Free Trading Region" in progressively. Enjoying the similar benefit of bonded policies, when operating import and export business, companies in the BLP can apply for the favorable tax policy, namely the domestic goods are treated as export goods when entering into the logistics park, any declaration should be apply for tax refund. Cargo is allowed for freely transportation without paying the value-added tax and consumable tax, reducing the operating cost for the export enterprises.

Secondly, all the advantages of haven shipping, parking and loading are in use in the logistics park to achieve the operating integration. For example, the port operation

is introduced to the logistic region, especially in transit transport and assembling containers. The transited container is allowed to be unpacked and assembled in the BLP, which changes the situation that container must be transported in and out of the port as the completely container. So the BLP achieve the container's comprehensive operation with allocation, distributing and transportation in a chain activity and will be become and operated as a distributing center servicing the container resource of branch line and international transition.

Moreover, the logistic park is executed and operated as closed management, specializing in developing storage and logistics property and along with the sub-process trading. So, the BLP not only possess the function of storing, producing sub-contracting, and even exhibiting the commercial products, forcefully increasing the intensive operation.

Finally, the BLP usually furnished with advanced electronic business platform so that trough the information and communication system, in the logistic park, it can fully achieve the regional custody, network management, electronic declare customs, and scientism custody. Moreover, the intelligent system allows for pushing the customs data by one time but the digital data can be multiple applying and sharing , where goods in simple declaration, simple examining, simple releasing at once with rapidly complicity.

1.2.2 Theory of economic analysis of logistics park

Logistics Park and Propulsive Industry Theory

Propulsive Industry is a preponderant economic unit, whose growth and innovation will induce the growth of other economic units. French Economist Perrox brought this concept on the basis of his "Growth Pole Theory". He believed that no matter in big economic group or in small economic unit, there was an unequal interaction. It caused the disequilibrium. In other words, this concept means some units dominate

other units. Perroxo called it “domination effect”. The dominant economic unit is “Propulsive Industry”

Logistic Park centralizes market information, modern storage, and professional distribution, combined transportation market showing and trading. It faces more customers; provide further service with bigger scale and comprehensively assorted service. At the meantime, this zone gathers logistic company and implements professional division of work. It helps to avoid repeated investment, improves the service and increase the utilization of social resource. The most important is to realize logistic industry’s assertive and systemic operation, to achieve intensives of logistic function. In modern economic life, every department, industry, enterprise has a complicate exchange and interdependency relation. Logistic industry works as a tie to maintain this relationship, and make every unit to be an union. As a part of third industry, Logistic zone can summon up the development of city’s economy and third industry. From this view, logistic zone is a propulsive industry.

Logistics Park and Value Chain Theory

Value chain theory was firstly brought by Professor Michael E . Porter of Harvard University in his “Competitive advantage” in 1985. This theory viewed the action of all enterprise as value creation action, and compares it to a joined chain. With the development of modern economic frame and innovation of science, the scope of every value creation action in the value chain is being stretched. The cooperation between every enterprise in the chain is also widening.

Logistic Park is a flat roof for value innovation, also the carrier for information of value chain. It consists of different logistic companies that specialize in logistic service and own different logistic facilities. It has big scale and comprehensive service. Logistic zone can be viewed as the node of different function enterprise in the value chain. From doing this, Logistic zone on one hand exerts every enterprise specialty and advantage, on the other hand, fasten the tie between enterprises in the

value chain, and promote their communication. It is beneficial for enterprise to save cost and innovating value. In information society, competition between modern enterprises is supply chain's completion. A good logistic zone is a organic value chain for outside world.

1.2.3 Recent research of 3PL logistics

The emergence of the third-party logistics is the requirement of the modern philosophy of logistics management. Since the communication's rapid development and detailing of social division drive the continuously update of management technology, the modern management philosophy are constantly innovated such as Supply Chain Management, Virtual Organization, a series of emphasizing the external coordination and harmony, which not only increase the complication of logistics activity but rising more higher requirement like Just In Time and Efficiency Customer Response, etc. due to most of the enterprise hard to accept such activities, the 3PL naturally appear to meet the special logistic demand. For one thing, it cater to the constant varying of special cooperation because of persisting the personality demand and, for other, 3PL can achieve the integration of in-and-out logistics, enhancing the logistics qualities, strengthening the completely control and management and driving the supply chain to entire optimum. To sum up, the third-party logistics is that 3PL service providers service the individual and special logistics to the customer in the limited time along with the negotiated price, and this service must be on the basis of the modern electronic technology of information and communication and the relationship with companies should be consociation.

Since about 1975 the first 3PL company appeared in U.S.A, as the rising domain, the 3PL has been develop to the principle body of modern logistics, occupying the major share and become the representative factor to measuring the logistics level. West countries researching the 3PL almost revolve on management, engineering, supply chain and outsourcing field, considering that 3PL would not be depart from the

supply chain. Because inside the construction of supply chain, the 3PL gain the economic scale from detailing division, be responsible for connect the each relationship with different level of the network in order to greatly achieving the entire supply chain's optimum. Enterprises outsource the business to the 3PL company and form alliance with it, pursuing the benefit maximization in a win-win and long way.

In our countries, 3PL enjoy the gigantic market with wide potential and prospect. According to the survey, the enterprise using 3PL service modal occupied 22.2% in 2002, expressing 3PL's total market share is gradually enlarging to some extent. 70% of the logistics service providers enjoy the range of rise up to 30% during the pass three years and the 3PL's growth rate will reach 25% or more in the next 10 years.¹

1.2.4 Logistics Company's situation of operating 3PL

Through the analysis of the demand and developing tendency of China's Third Party Logistic, the current demand positions are as follows:

Firstly, the market of Third Party Logistic is very potential, and in future, the demand will be greatly enlarged, so does the instant service. Chinese logistic industry shall have a bright future. On the other hand, currently, the effective demand for Third party logistic is insufficient. The ratio of enterprises that have their own logistic service facilities is quite high. Logistic company find it difficult to develop the demand for potential customer, especially the foreign enterprises.

Secondly, the demand for Third party logistic has a distinct character of clime and industry. Most of demands came from economic developed zone in eastern coastland, and the matured major industries in market. However, every industry has its different demand, so it is necessary for logistic company set the market orientation, allocate

¹ Dai Gang(2006). *3PL New Development Report*. Retrieved March 5,2006 from the World Wide Web:<http://www.chinawuliu.com.cn/oth/content/200604/200611419.html>

social resource, at the mean time, pay attention to the climate demand-enlarging tendency of third party logistic, get ready to enter into new emerged market.

Thirdly, now the major demands for enterprise still concentrate in traditional service like storage and transportation, etc. Enterprises' service demands for third party logistic are in low level. Logistic companies are required to make investigation for the demand of present and potential customers. It is better to meet the basic demand of customer, shape the core ability of service, and avoid pursuing "sharp" concept and high level service blindly.

Furthermore, Enterprises are in the transition from traditional style to producing according to demand and just-in-time planning, and pay more attention to cost and service. Further more, spreading the operation with multinational management require the support of quick-response and globalize logistic service system. In order to meet these requirements, informational operation plays an important role.

Eventually, more and more multinational manufacturers and retail companies established manufacturing base and sales network in China. However, these multinational companies will concentrate on their core producing ability instead of lay out too much logistic facility. They are ready to contract with third party logistic company. This will bring more service demands for this industry. Meanwhile, China will become manufacturing base of world, the purchase of raw material, sales for finished product will rapidly increase, and imp & exp trade volume will go up. This requires the support for strong third party logistic service.

With the entering of multinational companies, the market competition is much fiercely. Domestic manufacturers and commercial enterprises more and more involve in developing international market and multinational business. They need to improve and reshape their own logistic system. Undoubtedly, this will also boost the demands for third party logistic service.

1.3 Methodology

1.3.1 The mathematical modal with quantitative analysis and qualitative analysis

Since the complication of the logistics system, the forecast of logistics system in this paper focused on organic combination of quantitative analysis and qualitative analysis, ensuring the accurate estimation. As one kind of the service business, the market demand is the major content of predict and also need to qualitative analysis for the market conduct of company. The content of qualitative analysis is following: (1) The strategic objective of developing 3PL in BLP for XY Group. (2) The scope and specialization of 3PL service and customer. (3) The market demand of 3PL business. All of the above research content is based on the market investigation and study as well as material analysis of market demand of Xiangyu BLP including cargo category, the volume and direction of cargo flow.

On the side of quantitative analysis, the regression analysis will be applied for forecasting the volume of cargo flow in the BLP in order to achieving the market demand of the 3PL business. There are lots of elements influencing the cargo volume of BLP, but, in this paper, the whole social cargo volume is chosen as the dominating factor. Finally, regression standard deviation and significance test of regression equation will be testing the forecasting validity.

1.3.2 SWOT analysis

The SWOT analysis is an extremely useful tool for understanding and decision-making for all sorts of situations in business and organizations. SWOT is an acronym for Strengths, Weaknesses, Opportunities, and Threats. The S & W analysis mainly focuses on the capability of the company itself and the comparison between

competitors, whereas the O & T analysis pays much attention on the changes of external environment as well as the possible impact on the company. Through the internal and external analysis of an entity, its manager can identify the strategies that will create a firm-specific business model that will best align, fit, or match a company's resources and capabilities to the demands of the environment in which it operates. Based on the SWOT matrix, four kinds of strategies can be formulated; those are SO strategy, ST strategy, WO strategy and WT strategy. Then strategic managers compare and contrast the various alternative possible strategies against each other with respect to their ability to achieve major goals and superior profitability before implementation.

Chapter 2 Comparative analysis of physical distribution development of domestic and abroad Logistics Park

2.1 Current situation of BLP and structure of physical distribution in developed countries

2.1.1 LP's status in Germany

Current situation of physical distribution business development of Logistics Park in Germany, which is advocated greatly and helped by Germany, is the fundamental support of intensification organization of transportation. From 1980s, Germany planned to construct 40 logistics parks across the country. At present, 20 nationwide logistics centers have been constructed and put into service, in which Bremen and Nuremberg logistics parks are comparatively famous. In the process of construction, the government supervises the construction of Logistics Park, guide enterprises with good business competency to go into Logistics Park, attracting actively powerful enterprises and international physical distribution enterprises to enter the logistics park. It backs on economic area, by virtue of all kinds of alternative transportation modes, shortcut transportation net and circumspect transportation services, attracts dispersing transportation enterprises and transportation service enterprises and hangs them together as to achieve intensification. Economists and transportation experts believe after a long period of research, the rapid development of internationalization and liberalization of manufacture and trade rely on prompt and effective flow and supply of staffs, goods, and information. On the chain of manufacture, transportation and sales, the manufacture of transportation industry involves processing, package, storage, loading or unloading, transportation and administration, management, service, also and the exploitation of land resources, environmental protection,

ecological balance and so on.

How to organize so many transportation processes reasonably and economically, it is necessary to seek a kind of transportation service of resource conservation and the highly-effective movement, it relays to carrying out the reform to innovate the traditional disperser transportation combination form. In the certain region, select one or several spots, to provide all essential transportation servicing facilities, arrange the transportation flows which originally located in different places and factories get together. Then, on the basis of the above intensive logistics base and according to the distinct types, flowing position, current capacity, emergency situation and some others, the logistics manager would choose the appropriate transport mode, to carry on the transmission. This is the intrinsic factor of rising and development logistics practice in Logistics Park. On the other hand, Germany enormously develops and perfectly consummates the synthetically transportation system, reducing the negative influence such as the environmental and ecology deterioration, which can be viewed as the policy condition for developing logistics park.

2.1.2 LP's status in Japan

The Japanese logistics park appeared in Tokyo at the first time, for solving the condition of the worse mixture of business flow and physical distribution caused by massive cargoes frequently switching in urban and suburb, leading to the crowded and mixed traffic as well as low function of the city transportation system. From 1965, the government had adopted a measure to separating logistics flow function from the city centre. Under the unified planning and fund-raising, the government had constructed four modern logistics parks in four cardinal points (north, south, east and west) of suburb in Tokyo, Ge Xi, Peace Island, Ban Bridge, and Hezu respectively. Peace Island Logistics Park had functioned as the transferring base

which connected Tokyo even with the entire Japan. There are 49² transportation enterprises and 1516 transferring spots located in this LP, whose network greatly extended to all around the middle and small cities of Japan. It occupied the area of 223,000 square meters, among which is the 86,650 square meters' freight platform and dispatching center and also involved 433 truck spaces that servicing the cars loading and unloading cargo. In the park, handling capacity of freight reached 2 million tons annually, and about 70% big-scale trucks of all Tokyo operate business crossing this park.

Japanese logistic park located in the edge of the big city or traffic centre, which is different from Germany, Japanese logistic parks specialize in improving the rationalization of city logistics. There are 1.6million middle and small companies in Japan, accounting for fifty eight percent of the retailing market. Aiming at middle and small companies prefer to outsourcing part of logistic business to the 3PL, Japanese government organized and constructed several logistic parks to support it and give first rank to develop 3PL, combining with the chartering of the field and equipment and valued-added business and also working for flexible management of the logistic park.

Hereafter, Japanese government enacted the law about city logistic business to ensure all of the 24 logistic parks locating in 22 cities, integrated and furnished with comprehensive logistics functions including carriage, loading and unloading, transferring, storage, delivery, hire, booking, sale and after-sale service, heightening the highly effective function of the LP and gaining outstanding society results.

2.1.3The strategic enlightenments of operating logistics business in developed country's LP

a. The German logistic park experienced just only 20 years, developing under the

² Japanese logistics park operational model

background of highly-developed technology such as the powerful transportation and road traffic, and prevailingly employing the advanced logistic technology including mechanization and automation. Upgrade of science and technique extends the logistic supply chain, propelling the LP's function rising up to the strategic level so that park's operators pay more attention to the LP's performance more systematic and standardized (German LP's development and experience deserve our country to seriously learning and analyzing especially in our early stage of LP's development.)

- b. The development process of Japanese logistics park illustrated that logistics park and the highly-developed logistics industry are not suppose to be coexist, which means that the thriving logistics industry is not the only cause pushing LP's development. Rapid and steadily growth of economy, demand expansion, cooperation between economic upgrade and urban sustainable development, all of these are considered as the principal factors to LP's quickly development.
- c. The developed countries usually established the logistics park as the base between regional transportation routes to adapt to combined transportation; and the inland-trade transit point were also setup in order to transporting for distribution terminals targeted at the urban. Meanwhile, they strengthen urban logistics functions into the construction of operation of the logistics park, involving the improvement of road infrastructure, handling venues, wholesale and retailing facilities; pursuance of joint distribution system for avoiding crossed transportation of vehicles and protecting urban serialization.
- d. Multinational corporations within Logistics park eager to establish the centralized distribution center in LP. Logistics center obviously tend to be concentrated on the certain region, and employing 3PL in an intense degree. Furthermore, commerce and industry corporations and logistics companies generally join a strategic alliance, effectively stretching the field of logistics service.

2.2 The developing situation of Logistics in BLP of the main coastal cities in China

The eastern coastal areas mainly indicate the regions of Bo Sea gulf, Yangtze delta and Pearl River Delta. These three areas are viewed as the most flourishing regions in our country, with perfect condition of logistics infrastructure together with the continuously improved supporting facilities. Since rapidly economic development and the large-scale market demand, most of the domestic logistics companies urge to developing powerful logistics business. Under this condition, along with the completely open of the Chinese circulating market and the again coming of the logistics heat, the eastern coastal cities sped the developing speed of modern logistics industry and the construction of infrastructure in the logistics park. Here, I choose two domestic BLPs which seemly stand for the operational modal and characteristics of logistics business.

2.2.1 Development status of Tianjin BLP

Tianjin BLP is viewed as the international logistics park with high standard, furnished with logistics allocation zone, storage area, processing and value-added zone, exhibition room and supporting service space. It utilize the advantage of the Tianjin Port and international freight terminal, operating the logistics business as storage, distribution, allocation, package, processing, transportation, etc. Under the development guideline of logistics orientation based on the international trade, Tianjin BLP firstly launched the logistics operational modal with integration of haven and bonded zone, and establishes the international logistics distribution center which successful exerts the function of collection and feeder. Furthermore, the first commercial bonded warehouse was established in Tianjin BLP, which drive the import and export logistics and service foreign trade through providing bonded policy to the import freight and buy off the export freight. As we know, most of the

export clothes and video tube experienced the simply processing and package before getting into international circulation.

2.2.2 Development status of Shanghai Wai Gaoqiao LP

Shanghai Wai Gaoqiao Logistics Park belongs to the reexport trade type with terminal- and- park all in one function. It has 518 logistics companies contributing into storage logistics and warehousing space reach to 800 thousand square kilometers, several of famous shipping companies and massive organizations and multinational enterprises operating logistics business in this park, and the logistics freight throughput rise to 10 million tons until 2005 and the total import and export freight value reach to 20 billion dollars by 2006.

Besides expanding its maritime strength with the airline transportation, Wai Gaoqiao LP strive to develop the new logistics modal like combining the bonded logistics business with non-boned logistics, on-park logistics with out-park logistics, self-run logistics with outsourcing logistics. In addition, under the push and support of the local government, it further expand its infrastructure network, cooperating with water, railway, highway and city express to build up the solid transportation network and present the high-effective and wide-ranging platform for container centralizing, transiting, allocating and delivery. Most important, the logistics park strictly complies with the international convention to operating the logistics circulation through improving the administrative transparency and declare-customs speed. All of these configured the LP to be a competitive environment for international logistics development.

2.2.3 Development issue of domestic Logistics Park

The fever of developing Logistics Park sprang up swiftly everywhere. Even some medium or small cities also plan the completely programming of Logistics Park, as

well as strengthening the construction effort to international function. However, according to the current practices, lots of Logistics Parks have operational difficulties without producing any anticipated performance. Conversely, it also brings some negative impact to the local government and economy. According to the data published by some professionals, problems as following are existed in the operation of the logistics park:

a. Obscurely operational responsibility

According with the situation of investment and management, some of logistics parks belong to the “image project” of local government that always invest the biggest part, and other logistics facilities or other items in the park are constructed according to the logistics enterprises themselves. So, while the performance of the park is futile to creating new economic benefit and fail to setting off effectiveness it should have, parts of commerce enterprises would choose to withdraw them and exploit new project. We can found that Government's alignment toward Logistics Park In The Future and the supervision strength of the development seems to weak. So, who should responsible to the LP's operation and management become so obscure that restricts the effective performance of LP.

b. Confused management system

The diversification of the sources of investment lead to the disorderly management in the logistics park, along with many administrative and production problems coming from the modern corporation system. On the one hand, the governments hope that more and more companies would join into the logistics park so that the severe pressure from the urban traffic would be alleviated as much as possible. On the other, under modern enterprise management system, LP's proprietors would be comparing their corporation strategy with government's planning but still prefer to maximize their own profit. On balance, the two must be taken into account as a whole and the choice maybe against the government. Consequently, some preferential policies that the government formulate for the logistics park and are supposed to be executed by the park's proprietors would be subtracting their effect and even useless. Hence, such

action would hurt the immediate interest of enterprises located in LP and also emerging bad influence in the future development.

c. Lack of the philosophy of supply chain management

From the perspective of supply chain, the programming and construction about the area in the logistics park should be given a overall consideration on the developing trend about production and marketing of the enterprise and the way relative industry head for. Therefore, during the programming in prophase we should establish the philosophy for supply chain management. But it is far from the truth in reality. In an average area in the logistics park, the whole logistics industry market is artificially divided into several special logistics center. So, industrial groups which were relative at first are separated, which also induces fracture about the industrial supply chain. The development of logistics industry is affected as a whole. In reality, some large-scale market programmed and constructed by government are depressed, while some market formed spontaneously by individual group are larger than the former. The main reason is that the government programming is lack of the SCM's philosophy.

d. Enterprise got listed on the stock market through false running

The programming of area in the logistics park has become the pretext of their enclosure movement in some cities. To intervene in real estate under the camouflage of joining into logistics industry has been a common trick for many enterprises, which is also a shortcut to develop real estate. Moreover, other companies obtain the support with government policy or finance by cheating to plan LP, nevertheless devoting into the other business through taking these advantages. This action is also popular and treated as the business strategy in lots of firms. Therefore, strictly inspecting the planning process of LP and reinforcing the enforcement must be the core principle when government initiating the logistics project.

e. Ambiguous position and indefinite strategy

As a systematic engineering, the logistics park include department of transportation administrative, economy and trade, commerce, tariff, customs, inspection of commodities, programming of the city. It is still absent and vague that these department how to communicate and accommodate with each other. Most of the LP's proprietors just think about the solution when the issue emerging, lack of essential correlative mechanism, so it is hard to implement a comprehensive cooperation in the park, engendering the passive influence in the integrated effect. The future trend of BLP development is short of scientific argumentation, being ambiguous position has become a common fault to LP's expansion.

Chapter 3 Development purpose and market position of XY Group operating 3PL business

3.1 Introduction of XY Group and XIAMEN BLP

XY Group is the developer, operator, service provider of Xiamen Xiangyu BLP, and is the synthetically operator, service provider of the logistic park which has the most potentialities in western Taiwan Strait. Its businesses include the construction of platform in LP, synthesized logistic services and trade, port investment and operation. The strategic objective of company is striving to become the most infusive operator, service provider of the modern logistic park in western Taiwan Strait in 5-10 years.

Logistic platform which had been build up consists the first schedule of Xiangyu bonded zone, established by Xiamen Xiangyu group Ltd (to fill in sea for making ground in 11 square kilometers, consists Xiangyu port and backside operation zone), has become newly- emerging economic area to develop international trade, processing trade, transit trade, where the port is functioned as the leader role and modern logistic service as the subject content along with the special features of bonded area. It has becomes the most vigorous economic growth point in Xiamen special economic zone in western Taiwan Strait. The second schedule of Xiangyu bonded zone which has been invested by 1,200 million to fill in sea for making ground (1.1 square kilometers, not consists the excessive belt and modern port filled sea area) has been done. These projects are the important component part of 9 square kilometers Xiamen modern logistic park and each project's building acquires big breakthrough in 2006, which would play the important role in pulling development of area economics. At the same time with deeply development or operator of the bonded zone and the modern logistic park in Xiamen, the Group tries to acquire more logistic land and recourses to supply the core platform for synergic development of

each industry.

For the aspect of supplying synthetically logistic service and trade, the Group takes advantage of stock yard and warehousing to supply the powerful support for the development of company's logistic. Its businesses include international purchase, international accompany, discharging of shortage, stock yard and warehouse and its services. Develop bonded trade, transit trade, import-export trade and home trade. Doing quotation by the ability to research price; doing the area agents by marketing network; doing the import agents by credit resource and the ability to control the cargo's ownership. It possess surely share in southeast, north of china and to hold a large number of corporation partners.

For the aspect of port investment and operation, the Group utilizes the port area and route to play role in development for port logistic. Try to build new Xiangyu port and Xiamen modern port. The new Xiangyu port has been invested 1,500 million, and has 36 companies to be partner, which inaugurates 12 international routes. Its throughputs accounts up 20.7% of Xiamen container throughputs. The total investment of Xiamen modern port cooperated with Jianfa group Ltd is more than 1,500 million. The universal port which could service 100,000 ton ship to berth will be established in Xiamen modern port.

The synthetically Xiangyu logistics park is located in economic zone of West coast line in Fujian and Xiamen taking a sea-voyage eastward to a harbor district. The Logistics Park, whose planned floor area is 100,000 square meters, will be established as the modern logistics park owning multifunctional bonded inventory system with top-quality and high-standard features, also providing the fast express service. The Park is supplied the customs supervision , owning the exportation to go through customs bonded stores in a store house, the simple processing and the packing business, the global purchase and international distribution, forwarder service, the import-export trade, the transit trade, the international transit shipment,

domestic retailing and commodity exhibition, for the purpose of providing the property platform with international standard for the well-known high-tech processing industry.

3.2 The development objectives of operating 3PL in the BLP

3.2.1 Benefit aim for further development

With the rapid development of economy, the circulating efficiency of goods and fund emerges the upward trend, and the ratio of logistics cost to GDP will drop to about 15% in 2010 from 20% in 2004, and the annually average expense of logistics will be increasing by 3%. The most impressive figure is that the 3PL's annual growth rate reaches up to approximately 25% (from 400billion in 2001 to about 1600billion in 2007). By now, 3PL is becoming the essential part of Chinese economy and newly economic growth resource. As the developer, operator and service provider of XIAMEN Xiangyu BLP, XY Group should pay more attention to the further developing situation of the BLP and achieve the logistics information and infrastructure's sharing in order to shaping the compact relationship on the basis of integration with various resources. In other word, the BLP integrated with 3PL business is able to provide the systematic logistics business that any of the other logistics companies are hard to present, therefore, the organizations with industry and commerce business can conveniently attain their own logistics just in the BLP. Furthermore, from the future development of XY Group, it is important to exploit the 3PL business, since it completed the construction and operation of the LP and related facilities buildings, XY Group try to find new point of profit growth. According to the existed transaction with the large state-owned organization and foreign firms for the outsourcing practices, XY Group had steadily gained rich experience for the primary task of 3PL business. They put forward to regularly operating 3PL business depending on the competitive resource of BLP for the purpose of exploiting and broadening the new market.

3.2.2 Expanding the scale of the logistics market through value-added service

With the maturing of the logistics of the industry and commerce organization, they are eager to require a series of value-add service from the logistics companies, such as logistics network design, inventory management, order management, circulating processing, order transaction and information service, besides the common logistics service like transportation and warehousing. However, it is known that few of domestic companies can provide the high-quality logistics service. According to the survey of Chinese Logistics and Purchase Federation, 85% of the benefit of domestic 3PL companies belongs to the fundamental service, while the value-added and information service only accounts for 15%. So, developing the 3PL market, XY Group must concentrates on the value-added service extended from traditional services, selectively provide one-stop service for customers. as far as the current task competence and developing modal concerned, it can attempt to cover the service content of whole procedure from product-purchasing — manufacture— stocking— package— distribution— recycle— recirculation and integrated with electronic business, finance, insurance and agents, pursuing the perfect and comprehensive 3PL service.

3.2.3 Operational Improvement and sound expansion of the Logistics Park

From the view of supply chain, the planning and construction of LP should be systematically based on the development situation of production-marketing organizations and further trend of related business. Consequently, not matter in the previous planning stage or putting into operation in the later period, the BLP must be under the guideline of the supply chain management. However, the situation was not so satisfaction. On the one hand, some logistics parks were artificially divided into several blocks for special logistical central and unexpectedly dissevering the originally correlative industry clusters, leading to the fracture of the whole industry

chain and also obstructing the further improvement of BLP's specialization. On the other, the demand need of logistics transaction in BLP is small and the individual firms found difficulties to attain rich business, so the BLP's requirement about scale benefits hard to reach. But this difficult situation did not result from the industry and commerce organizations or multinational companies themselves lacking of the BLP's logistics business, it ascribe to the logistics companies in BLP, having ineligible competence to provide professional and high-quality service standards.

Similarly XIAMEN BLP also exist some problem resulting from the unreasonable planning and outlay, like land have been lain idle and imperfect transportation system of circulation in the park, which lead to the whole performance of Logistics Park expressing as an individual conduct of the logistics nodes or single company. As the operator of the Park, XY Group should assume the key role in connecting the individual nodes and linking them together to make sure integrating the whole resource in the BLP. In other word, the successful operation of 3PL business in BLP is to drive the BLP toward to the orderly and harmony progress.

3.3 Market demand analysis for XY Group operating 3PL in the BLP

3.3.1 Market forecast and analysis based on the cargo demand

The development of logistics system is the logistics demand for satisfying, so the logistics demand is the foundation and the basis of the development plan of the logistics system. And the logistics demand can supply quantity demand basis for the development plan of the logistics system. The BLP can be seen as a system. The volume of goods flow is a behavior characteristic quantity which the system output. Now Xiangyu BLP is at the preliminary development phase and Xiangyu BLP is lack of foundational material and regular material. So it is hard to forecast the future demand quantity of the third party logistics. This plan research aims to forecast the future demand quantity of logistics with the purpose of scientific and credible by

analyzing the economical development tendency of Xiamen and the center area, the advancement of strengthening the logistics management which the industry and commerce enterprise do, and the reform of logistics' policy laws and regulations.

a. The selection of the forecast model and confirmation method

Mathematical modal is a kind of abstraction of the operating system about real life, adapting the mathematical language to express. This forecast, through statistical analysis, will apply the statistical data to quantify the relationship between influencing factor and the demand quantity expressing by mathematical function. Under the condition of assuming the operational discipline of being unchangeable, this modal would be used to forecasting the demand quantity of 3PL's cargo transportation, eventually, regression standard deviation and significance of regression equation

There are so many elements effect the demand quantity of LP's cargo, but analysis must follow those influencing data with systematic data when forecasting the correlation regression analysis. According to the average experience, the macroeconomic performance targets influencing the freight demand include GDP of local freight central and the socially freight demand of local freight base and so on. Now, the socially freight demand of local freight base is chose as the independent variable and the whole freight demand of BLP as the induced variable, calculating their correlation relationship through using the simply regression analysis.

b. Forecasting analysis using XIAMEN socially freight demand as the major influencing factor

The following table shows the freight data about XIAMEN socially freight demand and total freight demand of the BLP:

Table 3.1 The freight demand of Logistics Park and socially freight demand

Observation period	Freight demand of Logistics Park (tons)	Socially freight demand (ten thousand tons)
1998	11512	1802
1999	26590	2050
2000	38973	3362.2
2001	50965	3541.6
2002	62260	3646.9
2003	72977	3852.7
2004	85789	4047.9
2005	125202	4273.6

Source: Port of Xiamen(2006). Port of Xiamen annual report 2006 and Xiamen logistics development strategy

X is the independent variable representing the XIAMEN socially freight demand, while Y is the dependent variable as freight demand of BLP, drawing the scatter graph like figure 3.1

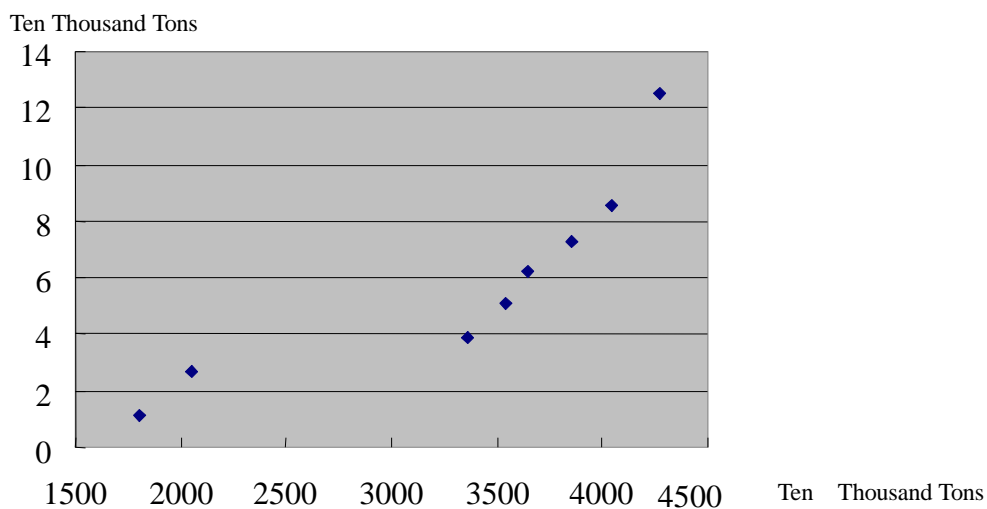


Figure 3.1 scatter diagram of correlation relationship

From the figure 3.1, it is clear that the first two years express the obvious discontinuity with the later years. Now, in order to ensuring the regressive modal can reflect the major causal sequence, the first two years data would be abandoned and just adapting the socially freight demand from next six years to forecasting. So the modified scatter diagram is following:

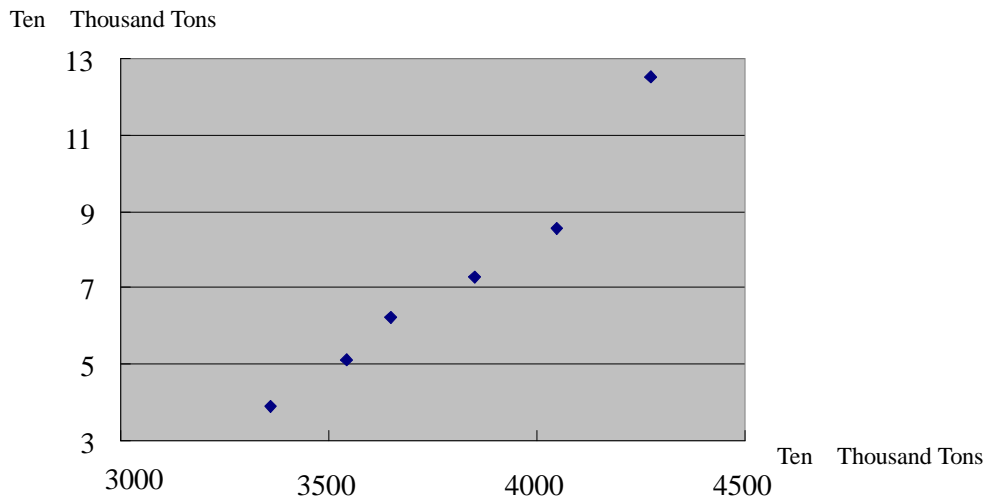


Figure 3.2 Modified scatter diagram

From the diagram, we can vividly find that with the increasing of the socially freight demand, the freight demand of the BLP were gradually rising, but X and Y fail to express the higher linearization, demonstrating as the curve of second degrees. Now in order to enhancing the forecasting precision, we can adapt the regressive modal with simple nonlinear , and the second curve modal is:

$$f(x) = a + bx + cx^2$$

In this equation: $f(x)$ represent forecasting value, a, b, c are regressive coefficients Supporting that $x_1 = x$, $x_2 = x^2$, the above equation can be simplified as the following linear equation:

$$f(x) = a + bx_1 + x_2$$

According to the method of least square, the standard equation establishing for determining the parameters is:

$$\begin{cases} \sum y = na + b \sum x_1 + c \sum x_2 \\ \sum x_1 y = a \sum x_1 + b \sum x_1^2 + c \sum x_1 x_2 \\ \sum x_2 y = a \sum x_2 + b \sum x_1 x_2 + c \sum x_2^2 \end{cases}$$

Solving the linear equation can gain the value of a, b, c :

$$a = 565802.2$$

$$b = -347.4$$

$$c = 0.056$$

Bring the $x_1 = x, x_2 = x^2$ to the original equation, then we have the regressive modal with simple nonlinear which using the socially freight demand as the independent variable:

$$f(x) = 565802.2 - 347.4x + 0.056x^2$$

Regressive standard deviation test:

Then, this equation must through the proof-test before treated as the forecasting modal. Firstly, we have the test of regressive standard deviation:

$$S = \sqrt{\frac{\sum \left(y_i - \hat{y}_i \right)^2}{n - k}}$$

In this equation: S is the standard deviation while \hat{y} is the real value and also means the theoretical value or value of tendency; n is the sample capacity and k represents the number of explanatory variable (including the constant term).

Now the criteria to determine the regression equation whether or not pass through the test of standard deviation is that if $\frac{S}{\bar{y}} < 15\%$, it did, or it fail.

$$\bar{y} = \frac{\sum y_i}{n} = 72694.33(\text{tons})$$

$$\frac{S}{\bar{y}} = \frac{5990.36}{72694.33} = 0.082(8.2\%)$$

The equation goes pass through the test of standard deviation.

Significance test of regression equation

Thirdly, the regression equation also needs the significance test, namely F TEST.

$$F = \frac{\sum \left(\hat{y}_t - \bar{y}_t \right)^2 / k - 1}{\sum \left(y_t - \hat{y}_t \right)^2 / n - k}$$

Comparing the actual number F=63.884 which through calculating with F_{α} from F Distribution Table. According to the F Distribution Table, the degree of denominator

freedom is $6-3=3$, while the degree of molecule freedom is $3-1=2$. If it is estimated by 95% reliability, $F_{\alpha}=9.55$, which lower than the value of F , so the test is through.

Fitting degree analysis:

Finally, it is fitting degree analysis. We can calculate the correlated coefficient and observe the interrelated degree and direction between two variables and then draw the conclusion about fitting degree of this modal.

$$R = \sqrt{1 - \frac{\sum \left(y - \hat{y} \right)^2 / n - k}{\sum \left(y - \bar{y} \right)^2 / n - k}} = 0.96$$

From the correlated value, we can see that the XIAMEN socially freight demand have the higher correlated relationship associated with the BLP's freight demand, expressing as the positive correlation. These demonstrate that second curve equation is appropriate to describing this relationship.

During the analyzing and forecasting period, the independent variable is going through diversified and need Time Series Method to predict, and then using the forecasting value of independent variable to predict the variety of dependent invariable during the forecasting period. Since we are adapting the macroeconomic targets as the independent variable, we can decide the value of independent variable according to the Logistics Development Planning made by the Government so that the forecasting result would be suitable for the development trend of local economy and more powerful

Supposing that the fifth year's socially freight demand can reach to 6086 ten thousand tons in terms of the Government Development Planning. Applying the

regression modal and using 6086 as the independent variable to predict the fifth year's freight demand of BLP, and then we have:

$$f(6086) = 565802.2 - 347.4 \times 6086 + 0.056 \times 6086^2 = 525731.98(\text{tens})$$

To sum up, with the rapid development of XIAMEN city economy, the BLP's freight demand also shows the thriving trend, which indicate that XY Group would possess upstanding market demand and prospective for their 3PL's development.

3.3.2 Market subdivision of the customers and demand level analysis

The survival of the company originates from the correct guideline of fundamental strategy which requires the analysis and positing for the customers and market. XY Group that wants to move in the path of the 3PL service providers and expanding its scope of logistics business, must analyze its present and potential logistics clients, there are two diagrams following shows the reasons why domestic and foreign companies choose to outsourcing business (itemizing with two different diagram because of the dissimilar subjects and causes between foreign and domestic clients). From the diagrams, we can express the demand features of logistics customers in BLP:

Outsourcing Resource for the Enterprises with Foreign Capital

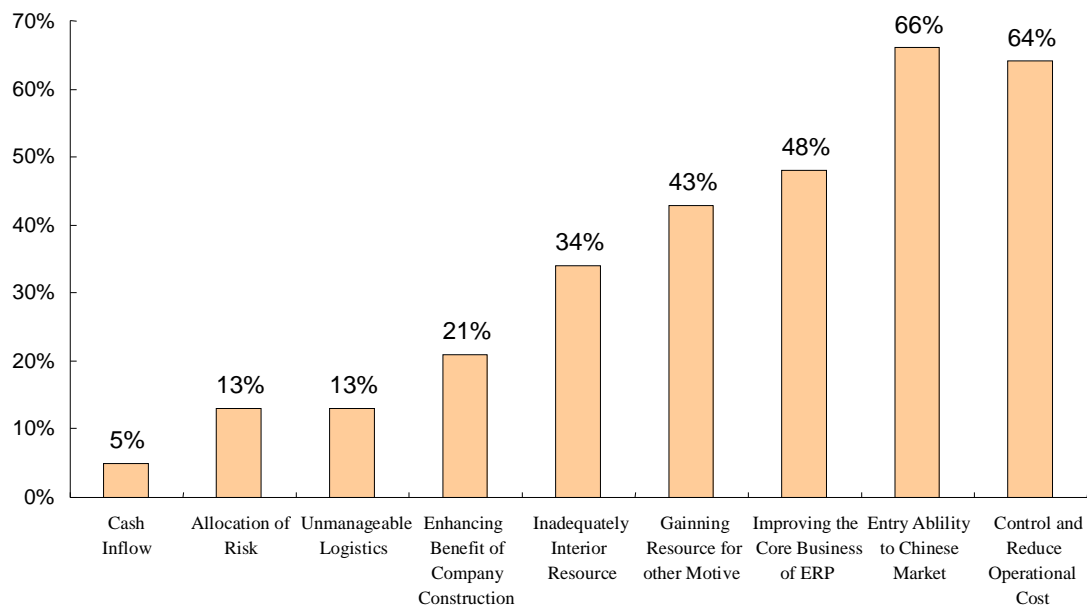


Figure 3.3: Outsourcing reasons for the enterprises with foreign capital

Source: Customer Study Teamwork of Marketing Department of Xiamen Logistics Park. *Customer Survey and Demand Analysis*. Unpublished company's marketing report of logistics development (2006)

Domestic Enterprises' Outsourcing Reason

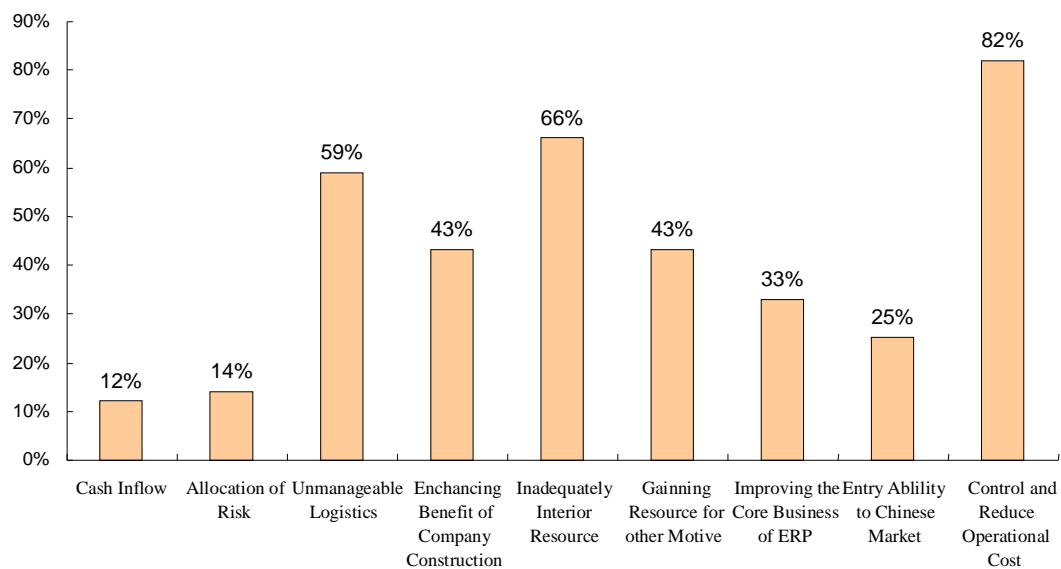


Figure3.4: Domestic enterprises' outsourcing reason

Source: Customer Study Teamwork of Marketing Department of Xiamen Logistics Park. *Customer Survey and Demand Analysis*. Unpublished company's marketing report of logistics development (2006)

From the diagrams, we can express the demand features of logistics customers in BLP:

- a. Reducing the cost is the selling point of logistics business in BLP. From the diagram, we can find that reducing cost is the principal objective for the customer,

but there is still some discrepancy in the two kinds of customers. Most of the domestic companies look forward to the special preferential policies to get through the customs and inspection quickly and conveniently so as to low down the total cost of operation. However, the foreign company chose to locate in the BLP primarily due to the special policies of customs-tax, avoiding the high tariff barrier together with quota control, and smoothly entered into the Chinese market with low price and risk. Although even in the future 5 years after China participating into WTO when the customs-tax would be slowly down and equal to the average level of the developed country, the other expense beside tax, like consumption tax, value-added tax and so on, would not apparently decrease but even get the chance to rise up, consequently in the long-term, the purpose that foreign company take use of the BLP would not going to experience big change.

- b. Customers prefer to attain other resource from the BLP. No matter foreign or domestic customer, for this item—gaining the other resource from the BLP, there is a big proportion of customers agree with it, 43% and --- respectively. With the rising degree of the market subdivision and since the major business of every individual firm become more prominent, the company increasingly depend on the external source for purchasing the material and fitting parts of the supply chain's upstream and downstream, leading to the portion of external purchase growing higher and higher wherever buying in the domestic or abroad.

Under currently customs-tax condition, BLP's international purchasing function may be a nice choice for the company in order to cutting down the purchasing cost. Moreover, this kind of the purchase and distribution practices happened in the BLP requires concise logistics designing competency and correspondingly low degree of logistics facilities, comparing to integrated logistics outside the BLP.

- c. Different requirement of logistics service. From the item of improving the BPR

structure of company, there exists the apparent distinction of attention degrees between domestic and abroad firms, 25% and 48% respectively, which represents the different requirement for the 3PL service providers. In the foreign company, the supply chain idea has been enhanced to the strategic level to directing company performance. They had learned that it is necessary to innovate the originally constitutional modal and processing flow and rebuild the new structure to adapting the supply chain management in order to surviving and developing under the newly competitive environment. Hence, choosing the perfect 3PL service provider had been placed upper the platform of internal business and information processing as the key factor effecting company decision. When XY Group confronts such foreign customers, it should realize that these clients are not only keep the eyes on the transportation and warehouse aspects of logistics service, butt pay more attention to analyzing any kind of economic benefit behind low cost and how to influencing the other resources and activities of the company.

According to the current expansion situation of organization reform, not matter domestic and foreign company are going to rapidly transfer their core logistics business to the company's BPR, sharing the similar direction with the international trend. Consequently, such category of customers would be the core potential clients to negotiation and develop transaction.

- d. Foreign companies are inclined to utilizing the 3PL's resource. There are still two reasons exciting the big discrepancy. One item is inadequately internal resource, 59% of the foreign company agreed with it while 34% of the domestic company made the same chooses. Another is "hard to manage the logistics function", domestic company accounts for 62% while foreign firms only takes up 17%. (The internal resource in there means the company's internal resource such as transportation facilities, warehouse, warehousing equipment and manning level and so on.). There are two aspects can explain the big discrepancy of these

different company, firstly, under the guideline of the previously planned economy, most of the domestic firms were tend to furnish the company or business with completely infrastructures, equipments as well as the supporting parts and so on(which means developing in the way of vertical integration) ,whatever the company belongs to small-size or large-size, in order to guaranteeing that all of component parts of task can be operated and achieved within the company. Therefore, for the aspect of logistics facilities, the domestic firms almost furnished with full equipments but just provide services of transporting and stocking for themselves. For the other side, foreign firms enter into the Chinese market without bring and imitating their originally logistics facilities of their country, because bring or building those facilities are expensive and complex and not even suitable for operating business in China. Considering the population of outsourcing in the world, they prefer to select the top level and qualified 3PL service providers associating with future development.

- e. Foreign clients show the higher value on the logistics project in the BLP. For the aspect of performing the logistics function and utilizing the logistics facilities, it exists the sharply contrast between foreign and domestic company, which means that owning the full resource does not equal to understand how to exploit the great function of them. In order to effectively allocate the resource, any company must pay higher value on the BLP's logistics projects and view them as the indispensable section linking to their own supply chain. Although domestic company possessed some or full logistics facilities, they unfamiliar with the logistics operation and lack of the positive enthusiasm to study the influence and benefit the BLP's logistics function may bring to. Besides that, they had not clear idea about the real objective when applying the BLP's logistics functions and did not seriously analyze the completely logistics process within BLP to plan their supply chain procedures. All of these passive actions certainly prevent these companies from extremely utilizing their own equipment and resource. Hence, for these passive participants in logistics activity, the 3PL service provider should

present the completely martial as well as information and woke out elaborative logistics planning of BLP in terms of the customer's perceptive so that they can have a detailed concept about what the 3PL service providers exactly do and how they do for them. However ,since these clients still fail to rise the logistics business up to the BPR level, most of the domestic companies does not operate their own logistics facilities well through BLP's logistics provided by 3PL service providers, consequently, the BLP's logistics still be considered as the independent part of their own logistics business.

To the contrary, almost all of the foreign companies possess the logistics experts responsible for the whole process of logistics outsourcing and familiar with how to linking logistics business into other segments of company performance, although the logistics equipment were not well furnished and hold by them. These professions got the deeply learning of BLP's logistics, some of them even have the working experience in Logistics Park. Obviously, we can feel the higher value from foreign companies. For such positive clients, they fully aware of the outsourcing idea and working content and the relationship with the 3PL service providers, the most essential is that they just pay more attention to the core business besides outsourcing section which would be smoothly connect into the company's business process ensuring the harmonious operation. Generally, outsourcing job coming from abroad firms involves providing the logistics facilities, designing the logistics program and plan and also the logistics practices. Working with these clients, XY Group's working standard and difficult was not relieving, but more heavy, because they should provide the logistics service with more personalization and high-quality in order to holding these major customers.

In conclusion, most of the enterprises voluntarily joined into the BLP and choosing the excellent 3PL operator due to the following 4 reason. Firstly, they look forward to the potentially logistics market and growth resource, because the transportation pivot with the physical goods and business flow is the real logistics hinge, which will

actually attract the attention. Secondly, it must be furnished the great transportation, operation and service environment. Thirdly, perfect completed infrastructure and supporting facilities. Finally, service provider must have the advanced idea to creating value for the customers in good faith.

Chapter 4 Development analysis on XY Group operating 3PL in the BLP

4.1 SWOT analysis about the XY Group operating 3PL

4.1.1 The advantage of developing 3PL in XIAMEN BLP

Firstly the geographical superiority, Xiamen is as promoting the logistics key city where the regional economy develops fast, its superior position, the gifted geographical condition has offered the good trade platform for development of the logistics zone in bond. Xiamen is connected with the middle of a developed area of the Yangtze River Delta and clicked in coastal Pearl River Delta of China; face each other across the sea with Taiwan Island. It is the place centre between Japan and Korea S. and Southeast Asia, and the place where is must be passed by the vessels which are from northwest Pacific Ocean area and our country northern to south China sea and India ocean .So is the channel contacting the convenient internal and external markets and the extensive radiate range of landlocked hinterland. Meanwhile, the forward position as the cross-Straits relations with direct freight transportation traffic and personnel come and go can save a large number of costs than that is round Hong Kong third place, which is considered as the best place where the logistics of both sides of Taiwan Strait penetrates each other.

Xiangyu BLP Lying in Xiamen island northwestern part as small island, adopts the position advantage of developing logistics industry of Xiamen. It is located Xiamen deep water good haven taking a sea-voyage eastward harbor, expanding to 319 national road in the east, connects in the harbor in bond in the west, and connects with the harbor taking a sea-voyage eastward in the south, adjoins to international airport in the north (from Xiamen 500 of International airport), linking with bonded area in the single user wharf of bonded area, among them there are three berths of 20,000-30,000 -ton container, 4 common berths of 10,000-20,000 grades. The total

length of water front of quay is 1406 meters, and the land-based area in the harbor is with the whole area of 360,000 square meters. There are facilities of development bordering on the harbor. Near the economic and technological development zone, there are having a lot of extensive foreign capitals, joint-venture export processing type enterprise, this is enough to meet development of logistics' demands.

Secondly, the traffic advantage of the port city. Xiamen haven is the important deep water good harbor of southeast coastal. With Xiamen city implementing the policy of “driving city economic development based on the port “, being developed constantly at the port on production and construction and expanded on scale day by day at the port. Xiamen haven has become one kind of large-scale ports in the country, maintained on managing trade transport and border on the sea industry , and have travel, passenger traffic, world change trains, transit trade, combined trade and business concurrently , where the auxiliary facility is more complete, and marched toward national coastal container main pivot haven, national basic haven ranks. They has been build up 100,000³ -ton channel at the first stage of the project at present, so 10 -ton vessel can take advantage of tide pass in and out. The whole haven has formed and produced 81 berths, with 10,000 ton-class 16 berths and 8 berths of container among them, having been designed 19,650,000 tons of handling capacity every year, the haven can moor the sixth generation of container ship and the above 70,000 -ton passenger steamer . There are 427 of all kinds of advanced loading and unloading machinery in the haven, 18 ships of homework, and the storehouse field of goods is with an area of 436,000 square meters, and the container piles 177,000 square meters of field among them. On the basis that the scale of the port is expanding constantly, they make great efforts to improve the port and collect and dredge the system of transporting, and improve the clearance environment of the port.

Third, Xiangyu BLP has begun to take good scale of construction of market of

³ Xiamen Port Development Report, Annual Conference 2006

logistics in Xiamen. For taking international logistics " express ", there have already been more than 20 enterprises with logistics supply chain , garrisoning in the LP at present, and among them seven of them has already formal operated, which mainly serves Xiamen and trans-corporation of the surrounding area. To May 2006, the customs of Xiangyu Park has received the customs declaration and declare 1595 tickets totally, and the goods are worth 154 million dollars, imposed taxes of 16,620,000 Yuan. (The variety of goods entering area are mainly Hi-Tech electronic products, and among them Dell's products has been taken as the core business, accounting for all and declare singular 50%) at the Customs. The market of harbor logistics of Xiamen is diversified markets of a composition, except that famous ship company and transnational logistics company such as Burlington, Singapore Yeshuifu, Jialidatong has garrisoned in or camped in Xiamen city, the more are the logistics enterprise of the type of assets or function at home, for instance, the jinhan logistics company of Xiamen, Sinotrans- yuli,etc. Although these enterprises do not possess the hardware facilities to finish the supplying necessary chain function entirely, but they possess a kind of service facility among them at least, for instance warehouse, motorcade, loading and unloading, dowering the centre, etc.

Moreover, there is a large amount of imported and exported source of goods and the volume of goods transported is great. Fujian Province, as the economic hinterland of the Xiamen haven, the south of Fujian Province area gathers a large number of export-oriented enterprise and the centers of dower and assemble of product of high-tech enterprise especially. Supplied materials import of raw materials of processing enterprise and the manufacturing industry export have produced a large number of cargoes imported and exported, and derive out enormously the market demand of transportation, and have guaranteed the relatively plentiful rotation volume of goods transport of port of Xiamen, and the same time have established the scale foundation for launching the comprehensive logistics business. In addition, the high-tech products have higher requirement of convection open time, because the added value of the products are higher. So, it has produced the desirability of a large

number of comprehensive logistics of container.

Finally, it owns the preferential policy of custom. There are the second supervise warehouse and bonded warehouse in Xiamen, which makes it convenient for the cargo owner to store and transport cargo, at the same time the cargo owner can go through all the customs formalities. Under the supervision of the customs, the owner can carry on the business of casing, allocating etc. of the container and the business of grading, selecting and packing etc. to the export and import goods in the customs warehouse. The import and export cargo and the import cargo of which the tax payment is postponed under the approval of custom are allowed to preserve in the bonded warehouse. So enterprise can get more convenient and flexible logistics service and they can connect with the overseas market directly through the supervise storehouse of customs and the bonded warehouse. Meanwhile, State General Administration of Customs supports bonded zone of Xiamen and Xiamen haven to link and develop integration of harbor.

4.1.2 The inferior position of developing 3PL in XIAMEN BLP

- a. There are no effective collocation for developing the resource of logistic industry, especially no conformity of the function of the bonded district and resource of the harbor. It is a little original and single to the way and manner of the service. At present, the most corporations in Xiamen engaging in the logistic service only can supply simple service on carriage and storage, and cannot operate completely in logistic process, logistic information service, storage management, logistic cost control and other logistic increment service.
- b. The level of the construction of the logistic foundation and equipment is low, and also the extent of the logistic information is not high enough. There are not enough the ground of modern logistic development support, also there

are short of advanced management technology and management persons with ability.

- c. The size of the logistic corporation is small and the development speed hard to satisfy. The most bonded logistic corporation is in small size, with low profit, in simple operation mode, except few all-around logistic corporations.
- d. There are few demands for the logistic market, no effective exertion function of allocation. And it needs more improvement of logistic service quality.

4.1.3 The opportunity of developing 3PL in XIAMEN BLP

Xiamen, as one of the five special economy zone, from the view of developing economy, is already in the stable increase period, with the rapid development of economy and the more powerful strength. Nowadays, the Fujian province made the tactic of constructing western economic zone of Taiwan Strait, Xiamen of course the center city of the planning, and gaining the chance to improving the construction of international transfer harbor. At the same time, with the strong cooperation of the five city between southwestern Fujian and the thirteen cities and with rapid integration of district economy, there must be much more opportunities and space for developing logistic operation. Also with the good future of the world economy mode, especially the resuscitate of economy of southeast Asia, Xiamen, as the mode of extroversive economy, can promote the export of the production, and strengthen the connection with the exterior economy for being the transfer point of contact between in and out. Simultaneity, the stable increase of the national economy creates the good environment for Xiamen, especially enjoy the economic environment of WTO, which is in favor of the operation of the special district's economy transferring and jointing with the international market. And also it promotes the transfer of the function of the government's management. On the other hand, Taiwan may adjust the policy of the trade to the main continent due to nice economic investment situation,

which accelerates the steps of broader open degree between undercoats and attracts the investment from the Taiwan.

From the view of the demands for the logistic market, increasing the demands for the carriage and internationalization resource collocation will offer much space of development for the carriage of import and export to our country. At the same time, the export of the product with traditional labor intensive pattern and the product investing from overseas technology and using with the labor intensive production will go up to much more extent. Therefore, the quantity of the product in and out of our country will go up obviously; the demands for the carriage will increase. And both of these will drive the increase of the product quantity of line in and out of the foreign trade, sequentially, driving the development of the logistic industry.

The government of Xiamen attaches much more importance to the development of logistic industry. In 2002, the logistic organization of government made the document “the program of Xiamen logistic development”, and suggested that there should be three steps for developing Xiamen logistic industry. In August, 2003, the government made a document, "advice about accelerating the development of Xiamen modern logistic industry”, and also made the measures of policy about supporting the main logistic corporations and main logistic items. In December, 2003, Xiamen logistic association founded, which meant that the development of Xiamen logistic industry entered into a new stage. In March, 2004, the document “the manner to cognize Xiamen main logistic items and corporations” made out. All of the series of behaviors of the government made the purpose of creating good environment for developing the industry, which meant that the government paid much attention to the development of the Xiamen modern logistic industry.

4.1.4 The challenge to develop 3PL in XIAMEN BLP

Along with our country logistics industry high speed development , at present has formed two big logistics platform-- the East China area which leading by Shanghai and the South China area which leading by Hong Kong. The logistics industry in Xiamen, as the prop industry to impel the region economy development will face three big dangers:

First is the “edgewise”. Fijian’s resources and the market are unable directly to melt into Yangtze River Delta and Pearl River Delta. Thus is in the industrial edge, the capital edge, the market edge disadvantageous status; Second danger is the “be diluted ”. While it is with constantly enlarged effect to " polarize " in the north and south delta, Originally will go to the Xiamen logistic industry foreign capital and a capital can the way reverse to north and south delta; Finally, the danger of " low end of the quilt ".

Xiamen urban logistics system unable to form the grade, “high and symmetrical” partnership of the coordination altogether of market altogether of city of the same platform with north and south delta, and become the peripheral area of their resource distribution of low end.

In summary, the logistics industry has the better development situation in recent years in Xiamen Xiangyu BLP. But also is at the start stage, and has not formed the integrity the logistics industry concept. Third party's logistics business is at low-level stage, the industrial chain link waits for further constructs. The logistics enterprises of the bonded area at present strictly can not belong to the real modern logistics service enterprises. The function of most enterprises is single, the scale is limited, merely pauses in meets the list, stores in a storehouse with the harbor transports in this level. The logistics of bonded area has basically formed the development characteristic relying mainly on international logistics, but still take storage, transportation as the main business at present, divide and set aside, provide and deliver and just start and develop. Compared with places such as Shanghai, Shenzhen development has a bigger disparity. The construction backwardness of the basic

platform of the logistics and information platform, the overall arrangement of the logistics is more scattered, lack the thinking of unified planning. Logistics infrastructure such as storage area utilization ratio low, market develop, form, connect effectively yet with logistics, not high to the efforts of drawing of development of logistics.

4.2 The strategic choice of the 3PL business

By analyzing the strategy circumstances of development of BLP, which include the evaluation to external and internal conditions and include breaking up external and internal conditions to integrate again based on analyzing SWOT. There are four kinds of crossing strategy combinations which is suited between external and internal conditions: the type of increasing strategy (SO) is dependent on internal advantage and take advantage of the external chance to development quickly; the type of multiple element operation strategy (ST) takes advantage of internal advantage and avoid internal treat; the type of torsion strategy (WO) advantage of the external chance and conquers internal weakness; the type of defensive strategy (WT) is dependent on conquering internal weakness to keep external treat away.

The analysis result performance for the matrix pattern in the next table:

In term of present situation of Xiangyu BLP, it catches up with golden opportunity of the development of the international trade and the logistics industry. The government of Xiamen pays extremely attention to the development of BLP, so the external conditions are fine. On the other hand, Because Xiamen's logistics industry faced with two big economic regions competition threat, the development of BLP's the third party logistics should based in the characteristic demand and the multiplication services, by which logistics zone can maximum play the role in promoting development of city logistics and the region economy. And the platform in logistic zone in west bank of channel can be constructed. So the type of multiple element operation strategy (ST) is compared with Xiangyu BLP now. It can dispersible risk effectively, expands the recent development domain.

Chapter5 Development orientation for XY Group operating 3PL in XIAMEN BLP

5.1 Formulation and implementation of 3PL development planning based on market orientation and government guideline

3PL business in BLP should follow the market economy requirements, complying with government guidance and regulation of market development .Logistics Company is the micro-economic entities of logistics industry and its operation must abide by the development rule of this industry. Government's directional plan plays an vital role in enforcing the Logistics Parks' expansion and the all-round development of the logistics industry which we can get form the rapid development of abroad logistics park. So XY Group should learn and study the Development Planning about logistics industry and legislation in earnest, and actively focus on the logistics infrastructure's construction and management. Moreover, it is necessary to analyzing the relative methods supporting third-party logistics enterprises in various ways to raise funds as well as preferential policies. And then, formulating the detailed logistics planning meet to the market requirement, urban totally development together with Group's future growth.

5.2 The development of logistics business depending on the advantage of international logistics distribution and allocation center

International distribution and allocation center, straddling two or above customs jurisdiction as the service scope, involve the complicated and technological operations as apply and declare to customs, quarantine and inspection of import and export commodities, customs supervision, bonded treatment and so on. With the rapid globalization, more and more international logistics centers with variant characteristic and scale were built in some important havens, metropolises, and port cities. Since its effectively comprehensive logistics function, the international

distribution and allocation center can attract the vast international freight business, which can forcefully push forward considerably growing of the region international trade and economy. To some purpose, economic globalization is the process of international logistics center growing, in hence, the international logistics centers are indispensable of the logistics system in some developed countries, so does common in the logistics parks.

Fortunately, XIAMEN international distribution center starts building, invested 800 million and occupied 42 thousand square meters and 157 thousand square meters, and it is suppose to the most advanced logistics center in Chinese coastal cities and the vital functional project supporting Logistics Park, presenting the ONESTOP declare customs service and logistics supporting operation.

Therefore, The Group can take advantage of the function of international DAC to operating its international trade and logistics business, depending on following unique advantages on the expansion of the international logistics industry.

Firstly, a strong basis on warehousing industry .Secondly, warehousing advantages on commercial processing area are more competitive compare with the warehousing enterprises outside .Thirdly, that is conducive to the allocation of logistics enterprises accelerate the pace under the policies and customs bonded special supervision manner. In addition, bonded area adjacent to the port has geographical advantages which provided a strong foundation for the growth of the logistics.

Given these advantages, in the new era, the Group must vigorously develop the bonded area of third-party logistics, the allocation of functions, logistics functions to achieve the diversification of the original "simple" Access to the main features of the traditional functions to collect transaction processing, distribution and allocation of services incorporating the functions of modern functional changes.

Firstly, To strengthen trade port zone integrated logistics operation mode, realize 24-hour customs clearance and network management on loading deconsolidates, fixed positions, the post-mortem report and other sector. Monitoring of the transport practiced locating and tracking systems management, has changed the type of access and invisible fence for the customs control access and the fence. To shorten the goods stranded import, we can establish linkage of classification allocation system to cut transit costs for the importer.

Where in the port of import procedures after they are bonded area directly in the port cargo for import procedures: The cargo which need use the bonded area to practice commercial processing and allocation realize straight reference and straight sent, complete all kinds of procedures directly by the bonded area customs. To feed processing of raw materials, components will be filing system management and the overall verification not for any import procedures.

Second, the Group should vigorously develop the bulk of the allocation of professional business. Although the WTO tariff reductions will affect low-value products bonded effect, but single pieces of high value, or seasonal differences, bulk commodities still has bonded edge.

Especially as automobiles, petroleum and products, steel, chemicals and other products can use the functions in bonded domestic production-oriented enterprises or responded Availability for the wholesale market for large allocation. In order to play the allocation function, according to the needs of the south-west hinterland characteristics of Fujian province, the Group can establish characteristic distribution network similar to the stone building, building materials and so on.

Finally, the Group should improve on the logistics of integrated service delivery system. Transport and logistics can not be separated from the service sector. According to the bonded area now has hardware and software conditions,

International logistics distribution center must have two directional breakthroughs. For one thing, facing on production-oriented enterprises, the Group establish network monitor system for the purpose of delivery, attracting more companies musing BLP as a large library of parts, which can reduce business inventory and the cost of turnover of individual enterprises. On the basis of bonded area's closed management, through the extension of the network, increase the bonded area for foreign-funded enterprises, completing the ability of radiation. For other, facing to various large-oriented markets, and establish a customs overall verification for the purpose of the Distribution System. With various supermarkets hinterland to the establishment and the reduction in tariffs, import volume of goods will increase significantly, which greatly require the Group enhancing the regional distribution system to support wholesale function of bonded zone.

5.3 The establishment of a modern e-commerce logistics system

E-commerce logistics is a highly developed logistics form; it is an integrated logistics operation which establishes on the basis of the modern information technology, automation technology, and advanced management thinking. Currently, Xiamen BLP's e-commerce logistics development is relatively slow, e-logistics enterprises is relatively low quality in e-logistics, on the basis of technical, theory is still very backward. However, the development of modern logistics of e-commerce has good prospects .Meanwhile, it is necessary for the Group positively participating in international competition, getting the opportunity to narrow the gap between our and the developed countries.

In the e-business era, information is the lifeblood of the logistics enterprises. Improve the logistics of the whole process Visibility through the creation of integrated logistics information system, and ensure a sustained, simple, no errors to mobile data, real-time, Automatic updating of the data. Therefore, it is very important for the Group to furnish advanced e-business logistics.

E-commerce logistics have four characteristics: goods of small quantity and varieties, customers' dispersion, distribution of the effectiveness, delivery service. Because of the rapid development of electronic commerce to the logistics industry has raised new challenges. First, through the internet, customers can directly face the manufacturer and receive personalized services. So traditional logistics channels for wholesalers and retailers, and other intermediary functions greatly reduced. Second, the feature of the time-line "zero distance" can easily be brought into the reality field. The feature caused enormous pressures because such as the warehouse, fleet should reflect rapidly after the mouse response and realized door-to-door services.

E-business and logistics are connected closely increasingly. Logistics industry "stocks" tend is enhanced. Development of the logistics will need the support of the development of the second space. Technical support of e-commerce logistics space is the logistics information space. Today's international logistics industry in the rapid development of information depends primarily on the advances in network technology and logistics second space unprecedented expansion. E-business provide more detailed information resources for the logistics enterprises, which enable the enterprises to quickly respond to the market changes and make corresponding adjustments in a timely manner. So logistics serves is "timely" trend, the logistics industry "inventory" operating tendency is obvious. It should be said that the second pace logistics. The development of large-scale e-business is a history of the greatest revolution. It enables the logistics industry has undergone a complete change .The business model has greatly different from the past. Many function of traditional areas(such as storage)is in reducing.

Xiamen BLP is closed to the customs control region. In order to meet the current international rapid economic development, international cargo transfer must make use of modern information technology. Therefore, we need to solve the problem of information exchange: First, establish the most compatibility database. Information System database is the basis, not only with the operation of any enterprise system but

also meet needs of business growth .Second, choose the best data exchange tools. Information systems integration needs of the buyer, the seller and the many third-party logistics entities mobile data and transmit instructions.

5.4 Diversification of service modals with value-added service

Value-added services of third-party logistics are based on the customer's needs, or provide services though the conventional method. Innovative, unconventional, meeting the needs of customer are the essential feature of the value-added logistics services. Value-added services which depend on the third part logistics enterprise's soft basement achieve mainly through improved information systems and networks through professional logistics management personnel experience and skills. So, it is the technology and knowledge-intensive services which can provide information t and effectiveness risk. There is more spirit labors in the services, which can create new value so that they are value-added services. From the value-added services of the situation, the services can be divided into two parts. Firstly, related services extended on the basis of the conventional logistics. Secondly, further valued-added services.

Value-added services extended from the storage, transportation and other routine services. Such value-added services mainly base on the basic logistics functions. Along with the implementation of the logistics operation, this kind of services connects all the sections together, realize convenient efficient logistics operation. e.g., services extended from storage, raw materials quality control, inventory inquiries, inventory replenishment, and the circulation of various forms processing services. Services extended from transport, such as the choice of international and domestic mode of transport, road transport, freight arrangements, choosing carrier for the customers, determine loading, transportation of goods, monitoring the process of transportation, tracking and integrated door-to-door transport, customs, sell freight

negotiation, loan recovery and settlement. Services extended form distribution, sorting packaging and supporting assembly, barcode generation, labeling, automatic replenishment, etc. Such value-added services need for the ability to co-operate and use other logistics enterprise resources to ensure that enterprises shoulder the task to deliver the goods in the most reasonable manner.

The Group must plan the core business on the value-added services on integrated logistics and supply chain management. Actually, the first level of value-added logistics services is the functional extension of itself. Integration of value-added logistics services is the extension of services to the customer. Through participation, involvement customers of supply chain management and logistics system to provide services, Such services can help customers improve their logistics management and control capabilities, optimize the customers' own logistics system, speed up response, and provide manufacturing, sales and policy support. Such as inventory management and control, purchasing and order processing, market research and forecasting, product recycling, construction logistics information system logistics system planning and design, logistics system diagnosis and optimization, logistics advice and training. Such services resource from third-party logistics enterprises play a greater initiative to tap the potential customer demand ,which need for more professional skills and experience, with greater innovation and value-added. Those are hi-tech and hi-quality services. This high level of value-added services needs to establish full cooperation of the two sides on the basis of trust. In addition, according to the effect brought by the services, the value added services can divide into four groups, they are customer's convenient services, service accelerating the reaction rate, services reducing costs on exploring third profit source and integrated supply chain services.

5.5 Service marketing of 3PL

Although the XY Group has a 20 years history of port operation, it is not so

popularity in the logistics field mostly due to ignoring the service marketing. It is necessary to comprehending the working key point of cooperation marketing with the customers and the competitors, and alter relationship with customers from the trade to the steadily relation. It requires the working principle of maximizing the customer value and service personalization. The XY Group should change the current working pattern without appropriate marketing support and considerable balance the company's profit, customer demand and social benefit, emphasizing the public relationship through flexible and actively operating social marketing and pursuing the long-term and harmonic relationship with clients.

Chapter 6 Summary and conclusion

As the potential logistics company work at the 3PL service, XY Group always focus the logistics development as the principle and core business. Alought the company built the accumulation of capital from operation and management of Port and Berth firstly and gain the great success, the top management of the Group did not satisfy the current results and still strive to making XY Logistics as the powerful logistics brand in the long-term. With the forcefully development of the west of Strait and the foreign notable logistics companies generously pouring into domestic market, the Group embrace the pretty well development opportunities while confront the firclly competition required to provide the special and optimizing service throught market division. Therefore, XY Group adhere to establish the bonded logistics brand for the professional 3PL service provider and actively search for the newly development modal suitting for the regionally economic expansion.

Based on the current situation and performance of XY BLP, the fumble and operation of 3PL logistics is the principle business and the development base of company supply chain in the next 5-10 years. This disseration analyzed the integrative function and socially economic effective of the BLP and discusses the development status of Xiangyu BLP, furnished with most integrative logistics function and enjoying the flourishing economic trade in the XIAMEN, even to the western economic zone of Taiwan Strait. Then, according to the company's marketing survey and customers analysis, study work covered the level marketplace of target customers and then get the detailed logistics requirment for companies with two different capital type. The disseration provides the BLP development concepts from the enterprise view, which will benefit for the effectively operation for the BLP construction and expansion, meanwhile, it point the direction for the company's developing logistics plan in the long term.

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