

World Maritime University

The Maritime Commons: Digital Repository of the World Maritime University

World Maritime University Dissertations

Dissertations

8-30-2008

Research on strategy for COSCO to develop logistics services

Yadun Xu

Follow this and additional works at: https://commons.wmu.se/all_dissertations



Part of the [Business Administration, Management, and Operations Commons](#), [Business Analytics Commons](#), and the [Strategic Management Policy Commons](#)

This Dissertation is brought to you courtesy of Maritime Commons. Open Access items may be downloaded for non-commercial, fair use academic purposes. No items may be hosted on another server or web site without express written permission from the World Maritime University. For more information, please contact library@wmu.se.



WORLD MARITIME UNIVERSITY

Shanghai, China

**Research on strategy for COSCO to develop logistics
Services**

By

Xu Yadun

China

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

MSc

In

INTERNATIONAL TRANSPORT AND LOGISTICS

2008

Copyright Xu Yadun, 2008

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.

.....

Supervised by

Professor Zhen Hong
Shanghai Maritime University

Assessor

World Maritime University

Co-Assessor

Shanghai Maritime University

ACKNOWLEDGEMENT

After great efforts about half year, my dissertation of Research on strategy for COSCO to develop logistics services has finally come to an end. This dissertation is completed under the direction of my supervisor Professor Zhen Hong.

First of all, I am thankful to the World Maritime University and Shanghai Maritime University for providing us the opportunity to study. I really learn in these two years.

I also gratefully thank my supervisor Professor Zhen Hong for his valuable advice and insight into the subject matters. His influential personality and uncompromising attitude towards principles as well as details with regard to academic study will benefit me for the rest of my life.

Last but not least, I am going to thank my beloved parents who give me strong support and encourage me both in life and study during these two years.

ABSTRACT

Title of Dissertation: **Research on strategy for COSCO to develop logistics services**

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

Abstract: With the entering WTO, the China logistics market opened totally in 2005. The competition of the market gets more and more fiercely. As the leader in domestic market, COSCO faces much stronger rivalries than before. To be a global logistics service provider, COSCO should establish an efficient logistics network, and focus on its competitiveness. Meanwhile improving the management system to make COSCO more fit for international logistics business.

The First two chapters of the dissertation review the China logistics market and researches on strategy for shipping companies to develop logistics service. Chapter three analyzed the strength and weakness of COSCO for its extending logistics business. And chapter four studies the external environment for COSCO to develop logistics service. At the beginning of chapter six, the SWOT analysis is summarized by the TOWS matrix. And then the strategies are issued in the rest part of chapter six, through the combine the result of SWOT analysis and the cases in the chapter five.

KEY WORDS: COSCO, Logistics, Cooperation, Network, Alliance

List of Tables

| | |
|-----------------------------------------------------------------------------|----|
| Table 3-1 Major partners of COSCO Logistics | 11 |
| Table 4-1 Volume of cargo transport and turnover in western provinces | 17 |
| Table 6-1 TOWS Matrix for COSCO to Develop Logistics | 28 |

List of figures

| | |
|---------------------------------------------------------------------------------|----|
| Figure 1-1 Structure of the dissertation | 3 |
| Figure 3-1 Total Capital of COSCO | 10 |
| Figure 4-1 Total merchandise trade value of China..... | 15 |
| Figure 4-2 Share of China in world merchandise trade | 16 |
| Figure 4-3 Logistics Cost..... | 18 |
| Figure 4-4 The Crude Oil Price | 21 |
| Figure 4-5 The Chinese Yuan Exchange-rate to US Dollar | 22 |
| Figure 6-1 Five Business-Level Strategies | 32 |
| Figure 6-2 the Curvilinear Relationship between Diversification and Performance | 33 |
| Figure 6-3 International Corporate-Level Strategy..... | 36 |

TABLE OF CONTENTS

| | |
|------------------------------------------------------------------|-----|
| DECLARATION..... | II |
| ACKNOWLEDGEMENT..... | III |
| ABSTRACT | IV |
| List of Tables | V |
| List of figures | VI |
| TABLE OF CONTENTS..... | VII |
| Chapter 1 Introduction..... | 1 |
| 1.1 Objective of the topic | 1 |
| 1.2 Background of the research | 1 |
| 1.3 Method and the main content | 2 |
| Chapter 2 Literature review | 4 |
| Chapter 3 The analysis of internal environment..... | 8 |
| 3.1 Strength of COSCO | 8 |
| 3.1.1 Advantage in domestic market | 8 |
| 3.1.2 Experiences from shipping competition | 8 |
| 3.1.3 Stable recourse backup | 9 |
| 3.1.4 Alliance and partners | 10 |
| 3.2 Weakness of COSCO..... | 12 |
| 3.2.1 Weak management system..... | 12 |
| 3.2.2 Lack of world wide network..... | 13 |
| 3.2.3 Deficient understanding of modern logistics concept..... | 13 |
| 3.2.4 Relatively poor service quality | 14 |
| Chapter 4 The analysis of external environment | 15 |
| 4.1 Opportunities to develop logistics service | 15 |
| 4.1.1 China factor | 15 |
| 4.1.2 Western development of China..... | 16 |
| 4.1.3 Great potential of profit in domestic market..... | 17 |
| 4.1.4 Improvement of infrastructures | 18 |
| 4.1.5 Experience from oversea competitors..... | 19 |
| 4.2 Threats in the market | 19 |
| 4.2.1 Insufficient domestic infrastructures..... | 19 |
| 4.2.2 Competitors from other domestic logistics providers | 20 |
| 4.2.3 Competitors from experienced foreign countries | 20 |
| 4.2.4 The shift of “World Plant” | 20 |
| 4.2.5 The increasing oil price and RMB exchange rate..... | 21 |
| Chapter 5 Foreign logistics enterprises as reference | 23 |
| 5.1 The innovation of business mode | 23 |
| 5.2 Focus on key clients | 24 |
| 5.3 Fully Understanding of Target Market..... | 26 |
| Chapter 6 Strategies for COSCO to Develop Logistics Service..... | 28 |
| 6.1 Summary of the SWOT analysis | 28 |
| 6.2 Market positioning..... | 29 |
| 6.3 Business-level strategy | 30 |

| | | |
|----------------------------|------------------------------------------------|----|
| 6.3.1 | Customers differentiation | 30 |
| 6.3.1.1 | Who | 30 |
| 6.3.1.2 | What..... | 30 |
| 6.3.1.3 | How | 31 |
| 6.3.2 | Business-level strategy | 31 |
| 6.4 | Corporate-level strategies | 32 |
| 6.4.1 | Level of Diversification..... | 32 |
| 6.4.2 | Related Diversification | 32 |
| 6.5 | Acquisition and Restructuring strategies | 34 |
| 6.5.1 | Domestic market..... | 34 |
| 6.5.2 | Oversea Market..... | 34 |
| 6.5.3 | Restructuring | 34 |
| 6.6 | International strategies..... | 35 |
| 6.6.1 | International business-level strategy..... | 35 |
| 6.6.2 | International corporate-Level strategy..... | 35 |
| 6.7 | Cooperative strategies..... | 36 |
| Chapter 7 Conclusion | | 38 |
| References | | 39 |

Chapter 1 Introduction

1.1 Objective of the topic

Through the existing analysis of the demand of the domestic logistics services to find out the opportunities for the shipping companies to develop their new service, and use the experience of the foreign companies who achieved or failed in logistics services providing as a reference. Then, combine with the internal environment analysis, trying to find out the reasonable strategies for COSCO (China Ocean Shipping Company) to make their advantages become as international logistics service providers.

1.2 Background of the research

With the trend of the economy globalization, China has become as the new manufacture center of the world, because of the cheap labor cost and favorable policies. Since the reform and opening up in 1978, a large number of multinational enterprises begin to set their factories in China and the Chinese companies get more chance to involve in the competition of the world market. Usually, their raw materials for production come from western China or foreign countries. Meanwhile, the place of production locates in east part of China, and the goods may be sold all over the world. The transportation plays an important role in the whole process. Therefore, as the competition of the market gets more and more intensive, many companies in China want to keep on the top of their core competence and get rid of the business which they were not good at, so the logistics have been paid more attention than ever before in China.

At the same time, the ocean shipping which used to be a high risky and high technical requirement industry, and the service provided is very difference from each other. Now, the difference is getting smaller and smaller, because the development of the shipping

and information technology. In order to provide better service and get more profit, it is necessary for the shipping companies to offer more systematical, specialized and informational logistics service, not just delivering the cargoes.

As the one of the earliest ocean shipping companies, China Ocean Shipping Company (COSCO) Group and COSCO Pacific Co., Ltd. co-invested the COSCO Logistics to extend their business scale based on their Liner services. But, the competition of Logistics market is very fierce, competitors not only including the traditional shipping-based logistics service companies like China Shipping Logistics and Maersk Logistics, but also the other types of logistics services providers, e.g. UPS, DHL and son on. The COSCO gets a long way to be the leaders of the service providers.

1.3 Method and the main content

The SWOT analysis is used to analyze the environmental for the shipping companies to provide logistics service. And then contrast the COSCO with the successful or failed logistics companies to conclude the reasonable strategies for Chinese shipping companies to develop logistics services.

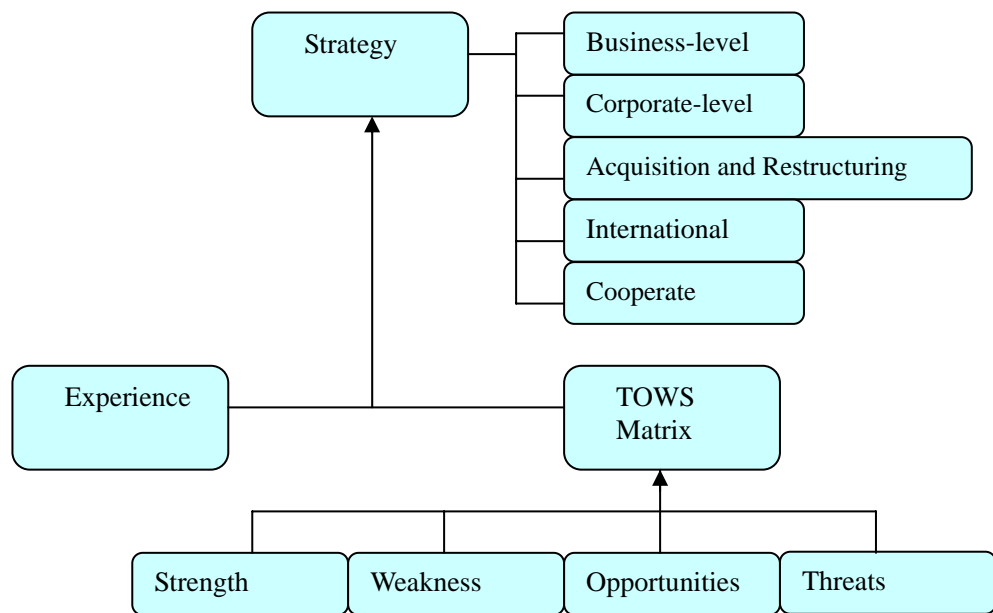


Figure 1-1 Structure of the dissertation

Chapter 2 Literature review

With the rapid development of Chinese economy, China's logistics market enjoys a period of spectacular growth. Patrick M. Byrne (2006, pp. 22) concluded five trends support logistics success in China: First, rapid growth. Second, consolidation of a highly fragmented market. Third, increased reliance on 3PLs. Fourth, greater control of downstream distribution. Fifth, competitive advantages gained through alliances.

From the analysis of the demand and supply market, we can conclude that: nowadays, the supply of the logistics services exceeds demand, but there still be small in number of the large in scale and good in efficiency enterprises; the logistics service providers are small in scale, the transportation capacity of the supply companies is much less than the requirement of the demand side companies, capacity scattered, low integrated degree, the nation wide logistics network has not founded; warehousing capacity slight surplus; judging from the current situation of the China logistics industry's development, the need of manufacture and commercial enterprises is the companies with high efficiency, large-scale, a board network. (Junling Zhang, 2007, pp. 480)

Although the market is developing rapidly, but generally, the China logistics industry is still at the fledgling stage, so the level of development is low. First, the total cost of logistic is relatively high; second, the specialized logistics enterprises are small in number and the level of services is low; third, the level of development of different regional is imbalanced; fourthly, the construction of the logistics infrastructure could not match the demand of the development. ... The compatibility of the infrastructure is low, the functions of systems are weak, the integrated cargo hub and logistics center constructed and developed slowly. (Yuxian Sun, 2007, pp. 85)

The competition of China logistics market is quite fierce that among the country's 18,000 logistics services companies, not one currently offers nationwide distribution services or commands more than 2 percent of the market. However, consolidation is imminent, due to competitive pressures, increased service demands, and the growth of China's outlying regions. Foreign companies with strong international networks and better management are gaining market share, while many domestic companies rely on underdeveloped local operations. (Patrick M. Byrne, 2006, pp. 22)

But the logistics providers in China depend mainly on transportation, distribution, and warehousing businesses. Only a small number of companies have "high-level" activities, such as logistics system design and information management. Many providers niche themselves to some particular industries, including food and electrical and electronic industries. (Junjie Hong & Binglian Liu, 2007, pp. 55 – 65) Although the concept of outsourcing basic logistics functions is still relatively new to most Chinese companies, many multinational corporations are accelerating the adoption of third-party logistics (3PL) services. (Patrick M. Byrne, 2006, pp. 23)

Wu Chaoying suggests that the shipping companies should combine its core business with the study of the status and industrial habits of the market beside the CY – CY service, to draw up a feasible plan for developing and the implement method. Meanwhile, make use of the advantages of the shipping business, and adhere to the core container transportation and avoid the pursuit of small and all-inclusive or big and all-inclusive services. Further developing and enhance the mix use of international refrigerated, liquefied, dangerous, exhibits cargo and special machinery and equipment, large boxes of bulk transport and so on, the very high-yield market potential and the personality characteristics of services. (Chaoying Wu, 2005, pp. 206 – 207)

To the road transportation, Liju He (2005, pp. 11 – 12) recommends that the shipping

enterprises could take the main domestic ports and inland central cities as main point, convert the ground stations and warehouses into the logistics centers, their business covers the region where they locate (the region is not consider the executive as premise), meanwhile, through inter-regional collaboration to establish logistics service network, in order to expand the scale of the logistics services and enhance the service quality. ... In addition, transportation and warehousing are the important to logistics services, the goods need different kinds of vehicles to transport. When the development of the logistics business, the national operational layout of the shipping companies' vehicles is need to be adjusted, and the logistics companies should perfect the structure of existing vehicles to meet the demand of the customers and development the company itself.

It is trend to use Electronic information system, so the shipping industry should be better understanding of e-commerce, especially to recognize that the information system should be ahead of the logistics services, the logistics need agile rapid reaction. Without the application of computer and network technology, no one can fulfill the mission. So the shipping companies should establish the booking management, warehousing management and vehicles scheduling management system and other subsystems. And shipping companies should integrate these systems as a platform for the customer to complete the booking, cargo tracking and tracing, fee clearance and other business through this system. (Liju He, 2005, pp.11 – 12)

The interview from *Logistic management* indicates that many others respondents say that their main worries revolve around core carrier selection. However, one area of agreement surfaced from all of our recent interviews: partnering is crucial. (Patrick Burnson, 2008, pp. 51s – 55s) As the top companies in China combine forces to build competitive national distribution chains targeted to specific industries, it is evident that this trend is fueling a growth in alliances and joint ventures (JVs). (Patrick M. Byrne, 2006, pp.22) On the one hand, through contracts, cooperate with the railways, highways,

aviation and warehousing enterprises to operate logistics services; On the other hand, unit with the local logistics providers positively, ensure and expand the market while introducing the capital and technology. (Chaoying Wu, 2005, 206 – 207)

Most of research on the strategy for shipping company is based on the container business, recently. Through the vertical integration of related business to enter the logistics service providing area. They do not consider the shipping company as whole, the suggestions are very general, and based on the domestic market.

Chapter 3 The analysis of internal environment

3.1 Strength of COSCO

3.1.1 Advantage in domestic market

Formed in 1961, COSCO was the earliest state owned company which involved in shipping business, got rich experience in China transportation market. As a state owned company, COSCO gets a lot of logistics business from other state owned companies or the government, for example the Three Gorges project, CSPC (China Shell Petrification Company) Nanhai project, extra. And COSCO engages in most petrification and energy projects in China, and also a lot of oversea project. Meanwhile, the fleet of ships and cars, and the domestic network is also not comparable in China. By now, COSCO logistics get more than 300 branches in 29 provinces. Therefore, COSCO get remarkable advantage in the industry logistics field, and has topped “The hundred Chinese logistics enterprises rank¹” for 4 years in row, which proved its advantage position.

3.1.2 Experiences from shipping competition

Shipping industry was one of the earliest Chinese service industries open to foreign companies. COSCO gets chance to compete with the foreign shipping giants on the same stage. Closer and closer link with the world market, and become vital part of it. So either the size, management level or the scale of the network of the Chinese shipping companies is much better than the companies from other fields. Especially, COSCO survives in the up-and-down market, and become one of the biggest shipping companies all over the world. The experience from the fierce competition is useful for COSCO to develop their other fields related to the shipping industry. Shipping transportation plays

¹ Organized by China Communications and Transportation Association, <http://www.56top100.com>

an important role in logistics, so COSCO could relatively know what the customers needs and the upstream or downstream related fields, it could provide integrated service for their clients for more efficient and effective logistics solution, especially in China.

3.1.3 Stable recourse backup

Although the logistics market has opened up, but as a state owned company, COSCO get the protection form the government more or less, relatively amount of business have get from the government, or favored policies, and so on.

COSCO engages in various kinds of sea transportation, from oil to container, from coastal shipping to ocean shipping. For land transportation, COSCO also has got big quantity and various kinds of cars. Its vehicles can fulfill all kinds of logistics demand from customers. COSCO investigating world wide ports construction, its ships get priority when they call these ports. Nowadays, lots of ports often get conjunction, and it is most important for logistics providers to deliver goods on time. The priority could save much time, especially the traffic busy ports. COSCO has invested ports in Hong Kong, Singapore, Egypt and Belgium. In addition, COSCO has its own ship building yard. These years, the shipping market is on its peak, the demand of ships overwhelming the supply, it is advantage of COSCO. From Figure 3-1, we can see the capital of COSCO increases about 35% in just one quarter.



Figure 3-1 Total Capital of COSCO

Source: 1st Quarter Report of COSCO Shipping CO., Ltd.

Through decades of involved in shipping business, COSCO has made a great profit, especially from the bulk shipping. And listed in China and Singapore stock markets, COSCO also finance quite a lot of fund from the capital market to support launch its worldwide logistics business.

COSCO also get reach reservation of human resource, they cooperate with Shanghai, Dalian Maritime University and China Ocean University, educating skilled logistics personnel for them.

3.1.4 Alliance and partners

Container transportation is important part of semi-products and finished-products logistics. In order to use slots more reasonable, COSCO, K-Line, Yangming and Hanjin

formed CKYH alliance to share their slots in certain routes. In 2006, COSCO and Dutch TNT Express have established a joint venture. Through the cooperation, COSCO could expand oversea business.

In domestic market, COSCO has got good reputation. A lot its clients have a long time close relationship with COSCO, when they began their oversea market acquisition, they will chose COSCO as their logistics service provider as first option. Through long time cooperation with the partners, COSCO gets involved in the core business operation. And depending on the relationship, developing the value-add service, for example, sorting, packing, repacking and labeling, etc.

Table 3-1 Major partners of COSCO Logistics

| | Represent Clients |
|--------------------------------------|---------------------------------------------------------------------------------------------------------|
| Household electric appliances | TCL, Hisense, Changhong, Kelon |
| Energy enterprises | China Huaneng Group, China Electric Company, China National Nuclear Corporation, China South Power Grid |
| Automobile | Shanghai General Motor, Beijing Hyundai Motor Company |
| Supermarket | Hualian Supermarket, Auchan Hypermarket |
| Food enterprise | MasterKong, MacDonald |
| Shipping company | K-Line, Maersk Sealand, P&O Nedlloyd |

Source: [COSCO Logistics web site](#)

3.2 Weakness of COSCO

3.2.1 Weak management system

Contrast with the foreign giants, it is true that Chinese state owned companies' management system are much less effective. Although as a state owned COSCO get a lot of profit, some of its business operations are restricted by the policies or the administrative intervention.

The administration of headquarter is not effective enough. The average age of administrators in headquarter is much lower than the subsidiaries, furthermore. Many of them lack practical experience of the market. This could cause the delay of the decision making and could not support the front subsidiaries efficiently. Some of decision-making authority concentrated to headquarter, made the subsidiaries could not gain the lead position in the market. And, usually, certain departments involved in a decision-making process, it may cause the secret leaked. Even employment should be passed by the human resource center. Meanwhile, some branches of COSCO compete intensely in same market but locate in different areas, cause lack of effective administration. The examination system is build based on the profit as core, other administration figures are examined by the materials handed on by the subsidiary, and these materials could be made easily.

Some inherent shortcomings of state owned enterprise also exists. The payment do not linked to the benefit, wages are paid not much different neither you contribute more nor less. Promote system is not efficient, because the talents could be attracted by the brand of COSCO, but could not be detained.

3.2.2 Lack of world wide network

COSCO has advantage in the China local market. But, when it comes to world market, the shorts of COSCO appear. The logistics giants usually cooperate with the multi-national enterprises, when their clients entered a country, they would also build their logistics network in the country, their network established step by step. But most customers of COSCO are Chinese enterprises, and their market share could not compare with their oversea competitors, even few of them have entered the foreign market or only a few developing countries.

Although COSCO has investigated in port construction in many countries, but the land and air transportation is its weakness in foreign market, especially in developed countries. COSCO logistics has got 329 braches in domestic market, but only 4 in Europe. Also the information system is disadvantage of COSCO, and it would take long time to catch up the superiors.

3.2.3 Deficient understanding of modern logistics concept

The great part of shipping companies who engage in the logistics market, regarding logistics department just as cargo collector, especially for container transportation department. They get used to do the traditional transportation business, think the core of competition is price. They pay their attention on their shipping business. COSCO is no exception. Lacks of modern concept of logistics also lead to the separation of logistics development from other department. Furthermore, the enterprise does not though to as one. Under the condition, the logistics department could not exploit its power. But if one company wants to be a global logistics service provider, it should establish a customer-oriented enterprise conception, and providing integrated logistics solution, the set a close long relationship with clients.

3.2.4 Relatively poor service quality

With the development of science technology and the homogenization of the products, consumers concern more and more about the service quality, logistics as significant part of service quality plays more important role than before. “On time” becomes a vital part of modern logistics, but shipping contains a lot of uncertainty affairs, it is very hard for ships deliver goods on time. Comparing with the express, air or land transportation based competitors. It is inherent defects for them. Although there is a big potential for them to increase their service quality, in the high value goods transportation, it is hardly to overcome.

Chapter 4 The analysis of external environment

4.1 Opportunities to develop logistics service

4.1.1 China factor

Because of the opening up and reform, the economy of China boomed. China has become the produce and process center of the world. Every day, a large quantity of raw material is imported and finished or semi-finished products are exported. The low cost of labor attracts the major producers to set plants in China. Statistics from WTO indicates that the merchandise trade value of China increase by about 5 times and takes more and more ration of World trade value, that can been seen in Figure 4-1 and 4-2. At the some time, most of the goods produced in China are lobar intensive, large in quantity low in value, so the low cost transportation is largely needed. Shipping transportation is fully fit for this kind of transportation. As the economy develops, the need of advantage integrate logistics service is also increase.

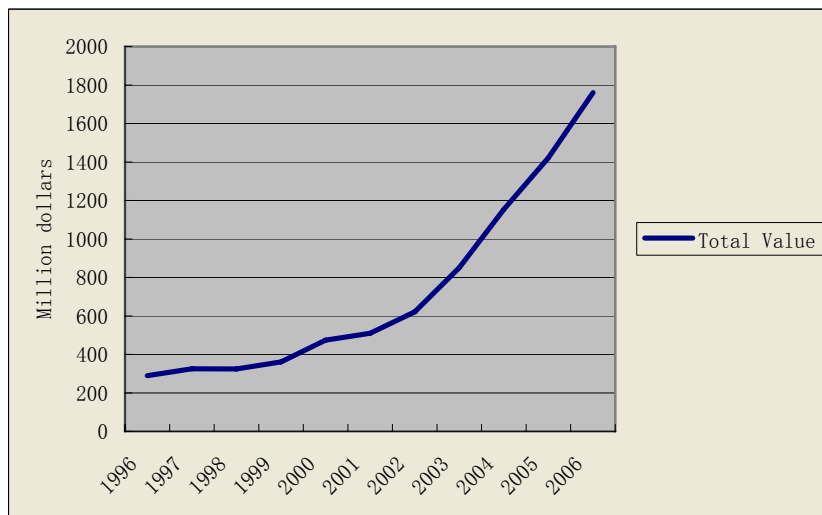


Figure 4-1 Total merchandise trade value of China

Source: WTO International Trade Statistics 2007

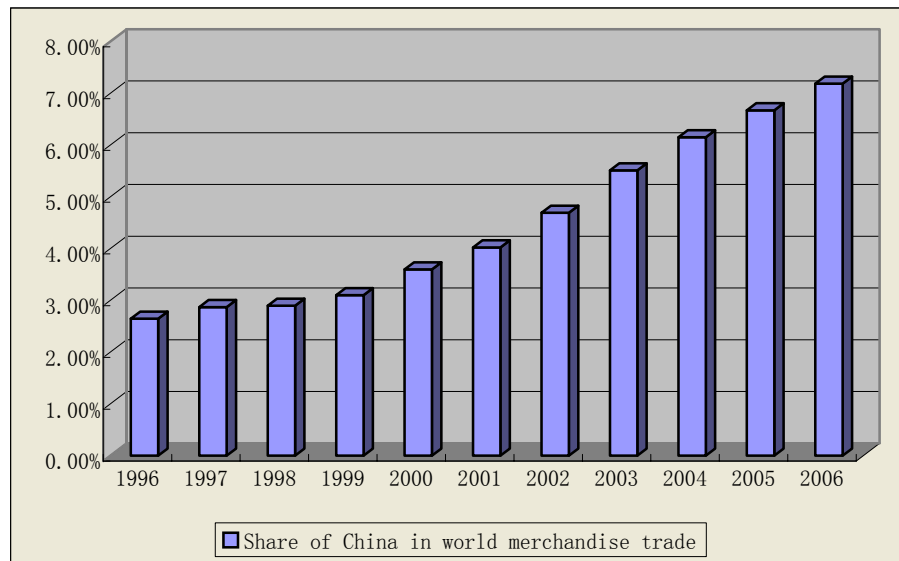


Figure 4-2 Share of China in world merchandise trade

Source: WTO International Trade Statistics 2007

4.1.2 Western development of China²

In order to balance the economy gap of eastern and western China, Chinese government has issue a series of favored policies to develop the western part. And the new exploration plan needs a lot engineering construction project, as the leader of industrial logistics service provider COSCO has got amount of chance to practice and improve their service. Meanwhile, the government would give much benefit to help the state owned enterprises to develop. Otherwise, a brand new market means equal opportunities for the competitors, and who familiars with the market would take advantage. Although some aspects fall behind other logistics service providers, in domestic market COSCO is reasonable in a lead position.

From the table 4-1, we can see that the volume of cargo transportation and turnover of

² Including Chongqing, Sichuan, Yunnan, Guizhou, Tibet, Xinjiang autonomous region, Inner Mongolia autonomous region, Ningxia autonomous region, Guangxi autonomous region, Gansu, Shanxi, Qinghai province

western China both increase at about 9% annually. This express that policy of the government is effective.

Table 4-1 Volume of cargo transport and turnover in western provinces

| | 2004 | 2005 | 2006 |
|---------------------------------------|-------|---------|--------|
| Cargo transport (million tons) | 3737 | 4118.24 | 4532 |
| Cargo turnover (billion ton miles) | 789.9 | 866.6 | 895.09 |

Data source: National Bureau Statistics of China

4.1.3 Great potential of profit in domestic market

The portion of logistics cost takes 18.4% of GDP about 4540.6 billion Yuan and it only use about 10% for the developed countries. If the cost reduced to level of the developed countries, it creates about 2000 billion Yuan society treasure. And figure 4-2 illustrates that the transportation cost takes more than half of the total logistics cost in China. There is a big chance for service providers to rationalize the transportation process to gain profit margin. It means any one who can make use of the advantaged logistics management, skill and talents, and then he will size or achieve success in the competitive market.

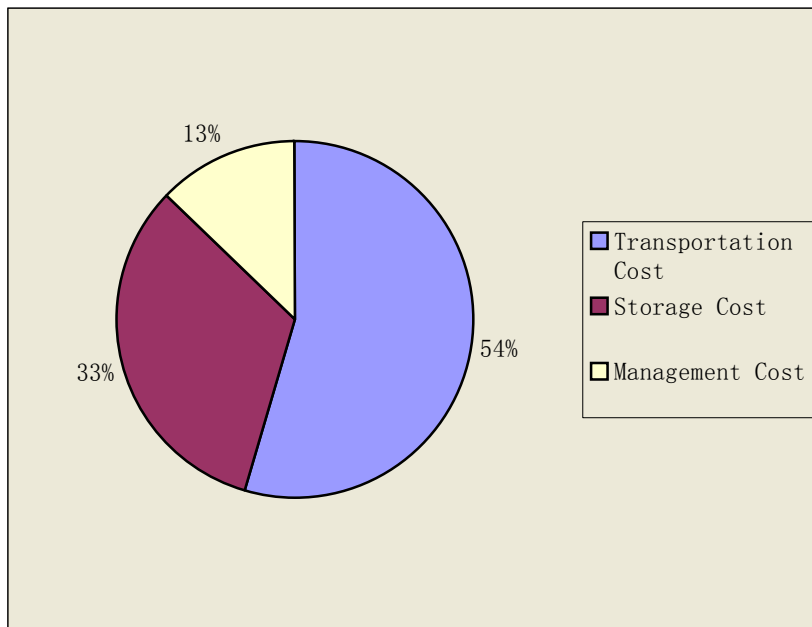


Figure 4-3 Logistics Cost

Source: China Development and Reform Commission

Most Chinese companies lack of modern logistics concept, they do not pay much attention to the logistics business. Much of them arranges and transport their raw material and products themselves. But as the business gets bigger and bigger, they will be aware of the high cost of logistics. In order to keep ahead in the competition, they will concentrate on their core business, and outsource the logistics business. There will be a lot of chance for COSCO to expand their market share.

4.1.4 Improvement of infrastructures

The poor transportation and warehouse infrastructures are important reasons why the logistics cost is so high in China. Chinese Ministry of Transport applies himself to improve the transportation system. When the system improved, any one who get advantage logistics management system, information technology and efficient

warehouse and transportation system will get a good chance to widen the difference in service quality.

Although the Wenchuan earthquake is a terrible catastrophe, also it is good chance for COSCO logistics. The image of brand can be promoted, if COSCO can transport the disaster relief materials quickly and effectively. And it is a good chance for COSCO logistics to practice and improve their logistics service management in emergency situation.

4.1.5 Experience from oversea competitors

As a relatively later company who entered to the logistics market compare with the foreign industrial giants. COSCO could learn a lot from its competitors not only the shipping based or other types of logistics service providers. From their either success or failed cases, the experience could help COSCO to lessen the gap or even gets ahead of them. The knowledge could be gain will be discussed in the chapter 5.

4.2 Threats in the market

4.2.1 Insufficient domestic infrastructures

Chinese transportation system is in a relatively poor condition. This is one reason why the multinational logistics service providers who get advantage logistics concept, management system, technology, talents and full experience also get high logistics cost. The poor condition limits the development of logistics industry, because the high cost makes little difference between good and bad service qualities. Much enterprise though that there is little space to decrease the logistics cost from logistics outsourcing, a lot of chance lost.

4.2.2 Competitors from other domestic logistics providers

As a traditional shipping competitor of COSCO - China Shipping also investigates in the logistics market, and its logistics department develops rapidly. With the requirement of development of the economy, lots of logistics companies appear. You can see vehicles that printed with logistics everywhere, although major of them are small ones. But it is a phenomenon indicates that logistics are more and more paid attention to. Although most Chinese logistics companies can not compared with COSCO who has got great amount of resource and government's backup, but they has their own advantage – more flexible to more profit market, less restrict, more familiar with local market and so on. None small challenges could be ignored – lots of case tells us.

4.2.3 Competitors from experienced foreign countries

Chinese logistics market is a big cake, and every one wants to share it. Like the shipping based logistics service provider – Maersk and APL, express based DHL and UPS, etc. Most the biggest world logistics provider has entered China. Most of them engage in logistics business much earlier than the Chinese ones, and get full of experience of run logistics business in foreign countries, and rich experience of market competition. Usually, they come into Chinese market with gigantic producers or retailers, who get a good and long relationship with them. And these multinational enterprises could size the market speedily, making use of their reputation and advanced management and sales technique. Although COSCO has advantage in domestic market, it is hard to gain a long cooperation with the oversea enterprise from their logistics partners.

4.2.4 The shift of “World Plant”

Although, China is the machining center of the world, as the development of economy, the cost of labor increase and the products turned into the knowledge-intensive. In the

future, the “World Plant” would not be China no more, maybe shift to Southeast Asia. The sea transportation demands of China will decrease, and as shipping based company, it will be a big challenge. Meanwhile, the help from the Chinese government will be less effective. The knowledge of Chinese market will turned into nothing, while the competition happens in foreign countries. The lack of experience of overseas market will be more obvious when competing with world logistics giants.

4.2.5 The increasing oil price and RMB exchange rate

The oil is the base of modern industry, but it is non-renewable energy, and the proved reserves will be used up in about 40 years³. The figure 4-4 indicates that the price of oil increase continuously recently, reached 135 dollars per barrel. In recent years, the exchange rate of RMB to US dollar is in an increasing condition, as the condition in the figure 4-5, causing the income of the business conducted by US dollar decrease. The increasing oil price and RMB exchange rate leads to the high fuel cost, making the logistics cost gets higher, so the profit space gets lower.



Figure 4-4 The Crude Oil Price

Source: www.livecharts.co.uk

³ From the Statistical Review of World Energy published by British Petroleum

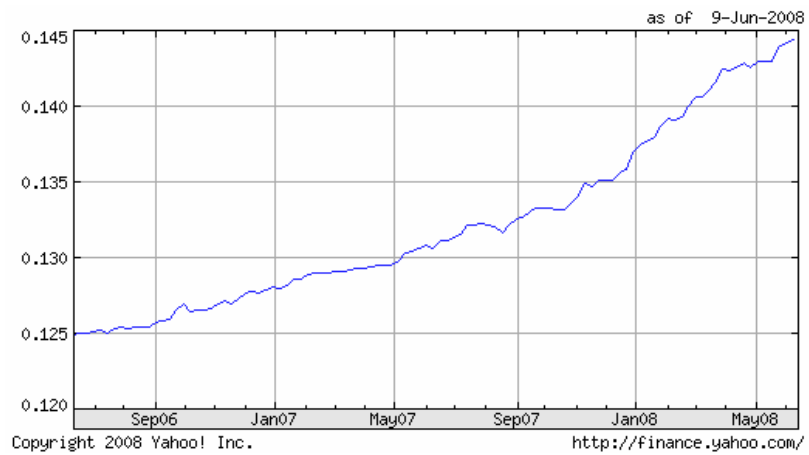


Figure 4-5 The Chinese Yuan Exchange-rate to US Dollar

Source: finance.yahoo.com

Chapter 5 Foreign logistics enterprises as reference

There are many factors for a company to succeed in competition, for instance, advanced technology, special business model, good management system, even lucky, etc. But, in this chapter, only some cases about logistics enterprises are discussed, because their business is relatively close to COSCO. And their experience is more likely to be used to maintain or expand the market share.

5.1 The innovation of business mode

Although logistics is a part of tertiary industry, not an intelligent intensive business, some time innovation of mode could lead to ahead the market.

FedEx is known for its hub-and-spoke system. But, when Frederick W.Smith put forward the operating conceives for cargo transportation in his report when he was sophomore, he only gets mark below C. Because his professor thought that was a good creation, but not realizable.

Hub-and-spoke system is not a great innovation of Smith, because American Airlines had tried the hub-and-spoke system mode in Kansas, 1984. Besides, Indian and French Post also do in this way. But all the express operators thought that will be impossible for the air express system could be realized, because that was not economical, and customers do not strong demand of “Deliver over night”. Actually, there was not need of “Deliver over night” in early 1970s, but Smith believed that the customers will welcome this kind of service, and the key of express competition is speed in the future.

The success of Smith is that he could use the reasonable analysis and strong will to reduce the risk of venture. He entrust research institution to exam the possibility of the

hub-and-spoke system. Then he used data and his passion, persuade the investigators to support him, and funding about 5200 million dollars. However, in the first month, his company made 440 million dollars loss. He mortgaged his stocks of his family enterprise for loan, because he considered the hub-and-spoke system could be realized.

At last, American government modified the aviation law, releasing the restriction of the air transportation, because the insistence of Smith and the change of the way of air cargo transportation made by hub-and-spoke system. And the company set by Smith – FedEx became one of the biggest service providers all over the world.

COSCO is not in the step of venturing, but to the new thoughts, COSCO could not ignore. Because keeping on the old idea could cause the COSCO lags from its competitors and even eliminated in the competition. Great business ideas are not hard to be thought out, but taking it come true needs passion and insists as Smith.

5.2 Focus on key clients

It has been proved that: 20% customers contribute 80% profit. Maintain a major customer not only bringing a long term and stable income, but also sometimes a new market. Maersk and IKEA are global partners. The IKEA's exploration of China market drives the development of Maersk.

In 1995, IKEA set first agent in China. They do not produce and sale their furniture in China at that time, but only purchase little amount of raw materials. Although, their volume of logistics demand is low, they could not find proper logistics service provider. Because requirements of IKEA is quite restrict: the transparency, cost, efficiency, and quality control should reach the standard of them, even “environmental protection consciousness” also concerned. But there is hardly any Chinese logistics companies

could reach their demand.

At that time, Maersk is not allowed to set up logistics company in China. There is only an agent resided in Shanghai. But Maersk arrange the export of the raw materials for IKEA rapidly, and through their branches in Hong Kong, Singapore and some where near China to provide the logistics service to IKEA. At the same time, Maersk increase number of agent in China to 9.

IKEA turned their Asia-Pacific focus to China, because of the great potential of Chinese market, in 1998. At the same year they opened their first shop in Shanghai, in Beijing next year. The sale of IKEA rose up 43.6% in the next two years in China, and 10% of the purchase also transferred to China. At this period, Maersk made great affect to open up China market. Finally, in 2000, Maersk Logistics Ltd established, and set up 8 branch companies and 5 agents in 13 cities, meantime, their network reaches inner China from coastal area.

When IKEA find new supplier or market in new area, Maersk would expand their network to there either. The relationship between IKEA and Maersk is not only about profit, for more important their long time cooperation makes other party develops. As the biggest logistics providers in the world, there is not only IKEA in their partner list, but also NIKE, ADIDAS and so on.

It is quite hard for COSCO to get business gigantic partners from its world known competitors, but if COSCO could know what the clients' need is and provide their best service, COSCO and their partners could get more powerful with each other. Especially, the Chinese companies, most of them sale low value goods, these will generate a large quantity of sea way transportation fit cargo.

5.3 Fully Understanding of Target Market

Because the difference of economy, culture and customs, the way of act of Chinese different from the other countries. To be a global logistics service provider, COSCO should fully understand the target market and switch his business way to fit its target market when expanding its oversea market.

At present, DHL is leader of China international express business. Fully understanding of Chinese market is an important reason why DHL could achieve in the competition of China express market.

“Who knows Asia-Pacific region better?” is a piece of DHL’s advertising slogans. DHL full of confidence that on one knows the China’s basic conditions and the need of customers better than him, between the lines. Although the market shares of FedEx, UPS and other express companies rise stably, they ignore the basic condition of China.

DHL and FedEx are competing for the favor of China government, for the close relationship with government, for more policies favors, at present. But as the development of the express industry, the strength of good relationship with China government will not be that obvious, the core of the competition will turn to achieve the favor of customers. In China logistics market, DHL get the advantage of localized sales network and the early enter to the market. DHL gets good capital resource, operating experience and technique, and Sinotrans is more familiar with the China and better government relationship. DHL and Sinotrans’ joint venture can make use of their strength to meet the demand of the customers. The CEO of DHL China Xu Kewei has said: “If want to develop the transportation and express business in China, DHL should have its local partner, Sinotrans is the best option.”

In the branches of DHL in China, it is regular that stuff from all over the world works together, but, usually, the manager are from mainland China, the middle class is composed by the staff from USA, Europe, Hong Kong or Taiwan, the particular jobs are done by the localities. The manager from China could straighten out the relationship with government, including the customs and the administration departments. And the foreigners maintain the clients, because there are a great deal of clients are from Europe or USA. In the condition, clients from different culture background could do business with the branches of DHL.

When enter an unacquainted nation, it is a convince way for COSCO to cooperate with a local logistics providers just as what DHL do in China, or even do some acquisition.

Chapter 6 Strategies for COSCO to Develop Logistics Service

6.1 Summary of the SWOT analysis

Table 6-1 TOWS Matrix for COSCO to Develop Logistics

| | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <div>Internal Factors</div> <div>External Factors</div> | Strength(S) <ul style="list-style-type: none"> ● Advantage in domestic market ● Experiences from shipping competition ● Stable recourse backup ● Alliance and partners | Weakness(W) <ul style="list-style-type: none"> ● Weak management system ● Lack of world wide network ● Deficient understanding of modern logistics concept ● Poor service quality |
| Opportunities(O): <ul style="list-style-type: none"> ● China factor ● Western development of China ● Potential of Domestic market ● Improvement of infrastructures ● Experience from oversea competitors | S-O strategies: <ul style="list-style-type: none"> ● Extend the lead by making use of the exceptionally advantages in domestic market | W-O strategies: <ul style="list-style-type: none"> ● Learn management and logistics ideas from the superiors |
| Threats(T): <ul style="list-style-type: none"> ● Insufficient domestic infrastructures ● Native Competitors ● Foreign Competitors ● The shift of “World Plant” ● The oil price and RMB rate | S-T strategies: <ul style="list-style-type: none"> ● Rely on strong the resource backup and partners for exploring foreign market ● Establish more closer relationship with fuel suppliers | W-T strategies: <ul style="list-style-type: none"> ● Merge or cooperate with the local logistics companies to enter foreign market |

The main advantage for COSCO develop logistics is its lead position in the domestic market. In the competition of China logistics market, COSCO could use the S-O strategy. Through the relationship with government and other state owned companies to get lot of logistics business, either in specialized or goods logistics. At the some time, provide efficient logistics to the clients, and do the best to maintain the relationship with them. For the logistics competition during the Western Development Plan, COSCO could use their strong resource to enlarge its leading position in domestic market. Meanwhile, COSCO could use the organization system of foreign logistics enterprises as reference to deepen the reform of the organization. In order to change the condition of the overstaffed organization structure, enhance the competitiveness.

When turns to the oversea logistics competition, COSCO also could get benefit from China government. For example, contract the logistics business of cooperation project between governments. Through the acquisition and cooperation, enter or extend logistics market in foreign countries. Meanwhile, through the port investigating all over the world establish a world wide logistics network. And aggressively helping the partners to expand their oversea market, perfect the network of its own through the cooperating process. Strive for foreign partners by the relative low price, to increasing the competitiveness in the world class competition.

6.2 Market positioning

The target of COSCO Logistics states on the web site is "to be the most competitive logistics provider and the best shipping agency⁴". As the leader of Chinese logistics service provider and one of the biggest shipping companies in the world, it is a proper aim for them. And by use of the advantage in domestic market and strong resource backup, COSCO should be a competitive global logistics service provider, not just

⁴ Quote form http://www.cosco-logistics.com.cn/about/1_e.htm

leader in domestic market.

6.3 Business-level strategy

6.3.1 Customers differentiation

6.3.1.1 Who

By now, COSCO get a great amount of customers from the concern of the government, most of them are huge energy and industrial enterprises. And the advantage of COSCO is just on this field – specialized industry logistics. Usually the logistics demand of the huge industrial enterprises are specialized, the profit margin is high. But the market of specialized logistics is relatively small, and much of the business COSCO get in China is some of the project are important and secret to government. But, when COSCO logistics want to expand their oversea market, this kind of business would not be that much.

So the large produce and retailers should be focused on. As the case mentioned in the Chapter 5, Maersk very focused on IKEA. COSCO also should be focus on the customers in great requirement of materials or products logistics. Not put all its resource on the specialized logistics business. Because COSCO also get a great number of bulk cargo and container ships. Meanwhile, because the shipping transportation which COSCO bases on is not could easily promise to be on time business, the target customers could not be time focus. In addition, COSCO should focus on the Chinese enterprises, for one reason is that COSCO is very familiar with the basic condition of China, where there is their main market, and for another reason is the foreign giants come into China market with their logistics partners commonly.

6.3.1.2 What

Certainly, all the companies outsource their logistics business is to focus on core

competitiveness. And they need low cost, effective and efficient logistics service. Sometimes some customers need packaging, rebelling and other value-added services, because their core business is not on that. Maybe some customers need specialized logistics service.

6.3.1.3 How

In the China market, COSCO could provide relatively precise, rapid and cheap logistics service to its clients by making use of its good basis in local market. To the customers who have specialized demand, COSCO could solve their problem by utilizing the former experience in specialized logistics service field.

For better meeting the demand of oversea business of customers, COSCO should make use its advantage in investigating port construction, set up oversea logistics network regarding the ports as the mainstays. Furthermore, the value-added service could be fulfilled in the free trade zone of the ports. Efficient E-commerce system is also needed.

6.3.2 Business-level strategy

From the figure 6-1, we can sort COSCO to the type of “cost leadership”. Because the kinds of customers of COSCO are various, different in scope of enterprises and involved in different fields. And the service provide by COSCO, also could done by other similar type of enterprises, especially the shipping-based logistics service providers. The COSCO should implement the cost leadership strategy. And COSCO should provide the services with features that are in relatively low price and acceptable.

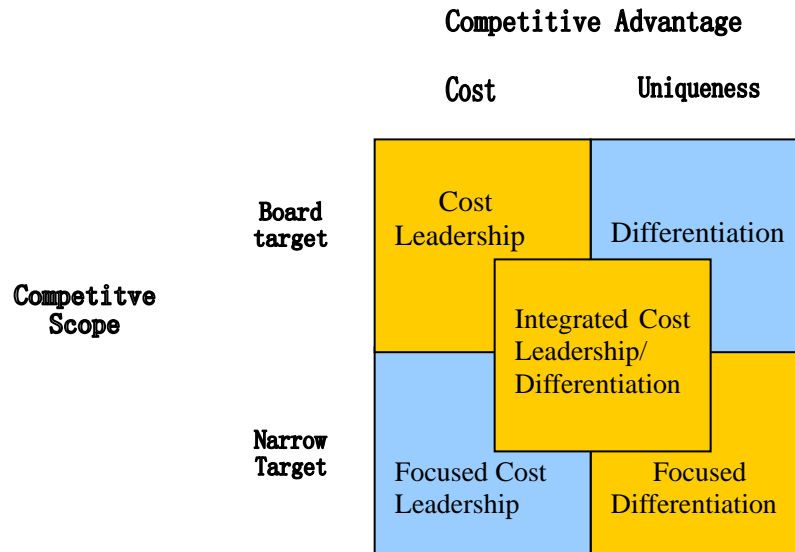


Figure 6-1 Five Business-Level Strategies

Source: Strategic Management⁵

6.4 Corporate-level strategies

6.4.1 Level of Diversification

Profit of COSCO in 2007 more one times in 2006, and 80% of its profit is from bulk transportation and only about 10% from the logistics, port and container leasing. It indicates that is in dominant business, because more than 70% of its revenue from a single business.

6.4.2 Related Diversification

According to figure 6-2, COSCO is in the low performance, now. In order to maximize its performance, COSCO should take vertical integration. Although COSCO has

⁵ Hitt, Ireland and Hoskisson (2005), *Strategic Management*, P114

involved in the land and air transportation, it is too little portion to its business. To be a global logistics provider should get stable strength in the other types of transportation not only the shipping business. Vertical integration could give COSCO more perfect logistics system and profit margin.

And COSCO also can engage in the sorting, packaging, labeling and other value-added service, because some times these kinds of productivity are not their core competitiveness, logistics service providers could gain economic of scale from offering these value-added services to a certain number of clients.

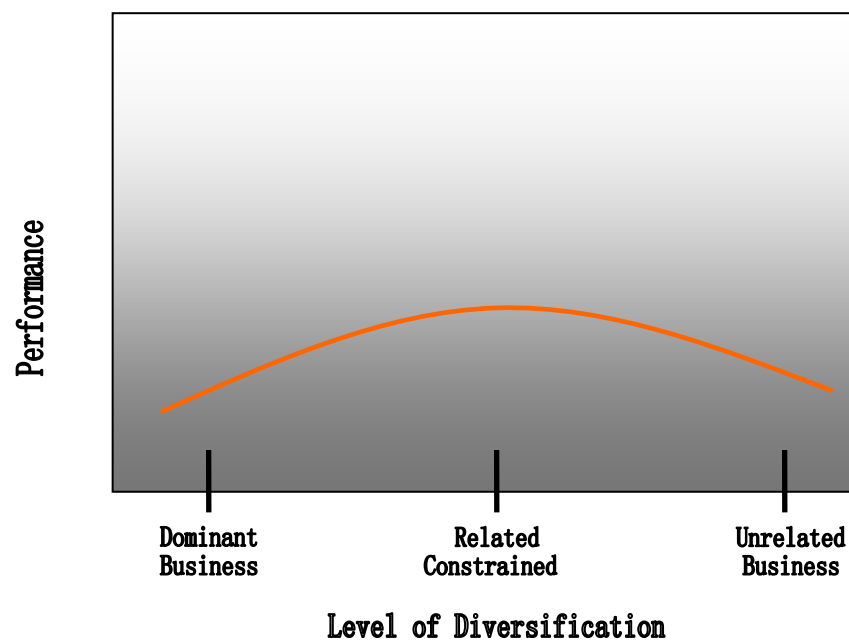


Figure 6-2 the Curvilinear Relationship between Diversification and Performance

Source: Strategic Management⁶

⁶ Hitt, Ireland and Hoskisson (2005), *Strategic Management*, P189

6.5 Acquisition and Restructuring strategies

6.5.1 Domestic market

COSCO logistics leads the China logistics market. But as discussed before, COSCO should take vertical integration. And COSCO is quite familiar with the condition of China, for developing the land transportation capability, so COSCO could only purchase same regional sized land transportation companies, because COSCO has a considerable network. And the small ones could easily be integrated to the COSCO logistics system, but the national wide ones may cause problem like arrangement of large number of staff or hard to integrate two system. In the condition that COSCO want to expand its business rapidly.

6.5.2 Oversea Market

Acquisition is good way to enter the foreign logistics market. Usually, entering an oversea market takes long time for adopting to fit the customs, culture and way of doing something. The acquisition of a local enterprise could shorten the process, and resulting in rapid expanding the market share. But the culture, customs and incoming difference should not be ignored.

6.5.3 Restructuring

Although, downsizing may cause loss of human capital and lower performance, it is necessary for COSCO to minimize its staff number. Too much employees make the efficient low, even some of them hardly do anything.

The poor management system is the inherent defect of COSCO, result in the loss of human resource. COSCO could take the advantage management system of other logistics companies as reference. Make the different function of headquarter in Beijing

and other subsidiaries clearly.

6.6 International strategies

6.6.1 International business-level strategy

One of main advantages of Chinese enterprises is relative low price. COSCO wants to be China-based global logistics provider. And as discussed above, COSCO should take cost leadership strategy, so it should insist its relative low price to expand foreign market. The main objective of COSCO's business-level activities are lower the price and reduce the cost.

6.6.2 International corporate-Level strategy

The logistic service is very different and specialized, because the economy, incoming and culture are different form countries or regions. But as a global logistics service provider, COSCO must has a world wide network, the link connection of branches in different nations and regions should be effective, so the COSCO should global integrated. As the figure 6-3 shows, COSCO should execute the “Transnational Strategy”. The flexible coordination network is hard to establish, but the success of implementation the strategy could produce higher profit than others.

For this strategy, an effective information system is important. And COSCO could cooperate with an IT (Information Technology) solution provider (for example: IBM) to research on the business mode of COSCO, in order to establish a common in information exchanging, meanwhile, the parameters of terminals can be set in difference to solve problems in different countries or regions.

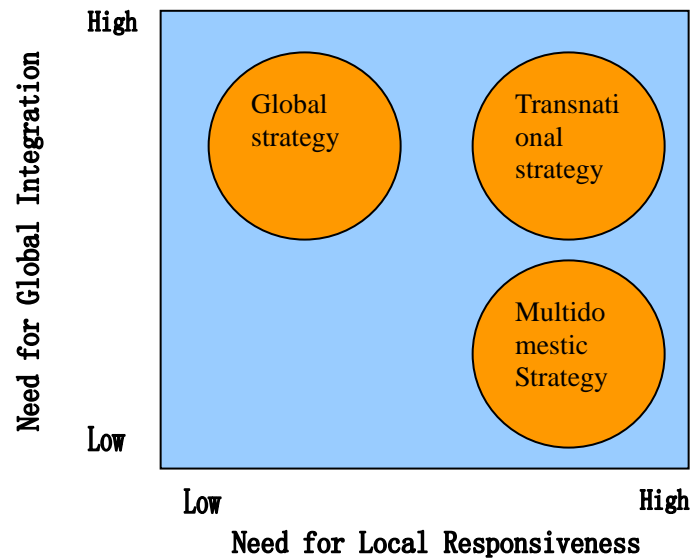


Figure 6-3 International Corporate-Level Strategy

Source: Strategic Management⁷

6.7 Cooperative strategies

COSCO Container line has formed CKYH alliance with K-Line, Yangming and Hanjin. It is successful for COSCO to join an alliance to achieve cost leadership – the business-level strategy. And COSCO could cooperate with petrochemical enterprises by making use of the advantage in project logistics even the government background. Providing them the logistics service and gain relatively low fuel price. Because in the oil price increasing days, the ration of fuel cost is much higher than before, even eroding much of profit. To diversify to relative business to make more profit, COSCO even could cooperate with process companies, helping COSCO to complete the value-added service constructed.

⁷ Hitt, Ireland and Hoskisson (2005), *Strategic Management*, P243

Not only for declining the cost, cooperation is also a reasonable way to expand the oversea market share, just as the successful alliance between DHL and Sinotrans. Not long before, COSCO logistics and TNT exchanges part of its business to set up a joint venture. That mode should be very carefully treated, because the China logistics market is in great potential, but the market of developed countries is hard for outsiders to come in. The companies in developed countries usually get long time partners. The most important thing of alliance is trust each other. Otherwise the alliance between the strongest also could fail in the fierce competition.

Chapter 7 Conclusion

COSCO as a Chinese state owned company, which subsidy COSCO logistics is in leading position in domestic logistics market, especially the industry logistics. Among the Chinese logistics companies, COSCO takes advantage of capital, network, human resource, etc. But, in the condition that foreign companies enter the China logistics market, the advantage of administration and logistics ideas appears. And compare to the other world class logistics service providers, the deficient world wide network of logistics is significant. As the “China Factor” giving out its energy constantly, the logistics market of China is favored. The logistics cost takes portion much more than the developed countries and the infrastructure is deficient, so there is great potential for logistics companies to achieve. Although COSCO leads the logistics business in China, the rapid developing native providers and foreign logistics giants are quite competitive. To the world class logistics market, the short of COSCO is quite obvious. Lacking of world wide network and weak management system leads to the disadvantage in the competition in world class level.

Because the service provided by COSCO is not unique and the customer scope of COSCO is quite wide, the business-level strategy of COSCO should be cost leadership. Provide service in relative low price, and pursue the economic of scope to low the cost. COSCO could diversify its business to related field to increase their profit and maintain customers, for example the sorting, packaging and labeling service. And make vertical integration to achieve more market power. COSCO should insist its cost-leadership strategy in the world competition. To the new market, acquisition and cooperation could shorten the process of entering a foreign market by acquisition and cooperate with local companies. For the companies of COSCO merged, COSCO should give them reasonable flexibility. Especially the market which they involved is quite different from China

References

Chaoying Wu (2005). The logistics strategy of the international liner companies. *Popular Science* (2005, Vol. 12), 206- 207.

Datamonitor (2006). *Logistics in China* (2006, May).

Donald Betman (2000). *Distribution & Logistics Strategy*. W&H Systems, Inc

Hitt, Ireland and Hoskisson (2005), *Strategic Management*, Thomson South-western

Hong Liu. Explore of China's shipping logistics development. *Science & Technology Information* (2007, NO.21). 209

Liju He (2005). The analysis of China shipping logistics' status and improvement strategy. *Logistics technology* (2005, Vol. 29). 10 - 12.

Liu Nan & Jianhai Zhang. SWOT analysis of the international shipping companies developing the integrated logistics services. *China and foreign countries' Logistics* (2007, 7.18). 94 – 96

Jianqing Ling (2004). General discussion of modern shipping logistics service integration. *Transportation Enterprise Management* (2004, Vol.9). 18 - 19

Junfa Ding (2007). China logistics industry status and development trend. *Logistics Truck and Logistics* (2007, April 10). 16 - 19.

Junjie Hong & Binglian Liu (2007). Logistics Development in China: A Provider Perspective. *Transportation Journal*. 55 - 65.

Junling Zhang. (1994). Analysis of the China logistics status. *Science & Technology Information* (2007, Vol. 21). 480.

Justin Pennington (2007). China's outsourced logistics market the challenge for 3PLs. *CILT World in focus* (2007, March). The Chartered Institute of Logistics & Transport.

Patrick Burnson (2008). China logistics: Anything but business as usual. *Logistics Management* (2008, January). 51s – 55s.

Patrick M. Byrne (2006). Five trends support logistics success in China. *Logistics Management* (2006, June), 23-24.

Qinguang Liu (2007). Development counterplan for inland-water transportation under the integrated logistics service system. (2007, Vol.29)

William Hoffman. Maersk's Logistics Relaunch. *Traffic World* (2008, January 31). 15

Yingqiu Yang (2004). The strategy of shipping enterprises' logistics business. *Logistics*.

Yuxian Sun (2007). The research on analysis the current situation and countermeasures to China modern logistics. *Investigation and research* (2007, Vol. 9). 84 - 85.

Zhaoyang Tan & Tianfang Xu (2002). Logistics mode relies on shipping. *Tianjin Shipping* (2002, Vol. 3). 39 – 41.