

# Moving to a Dual Business Strategy in China: Key Challenges in the Material Handling Industry



**Global Supply Chain Solutions**

Operations Consulting ■ Technology Implementation ■ Integration

*April 22*  
*Press Conference*

NA 2008  
Cleveland, OH

**TOMPKINS**  
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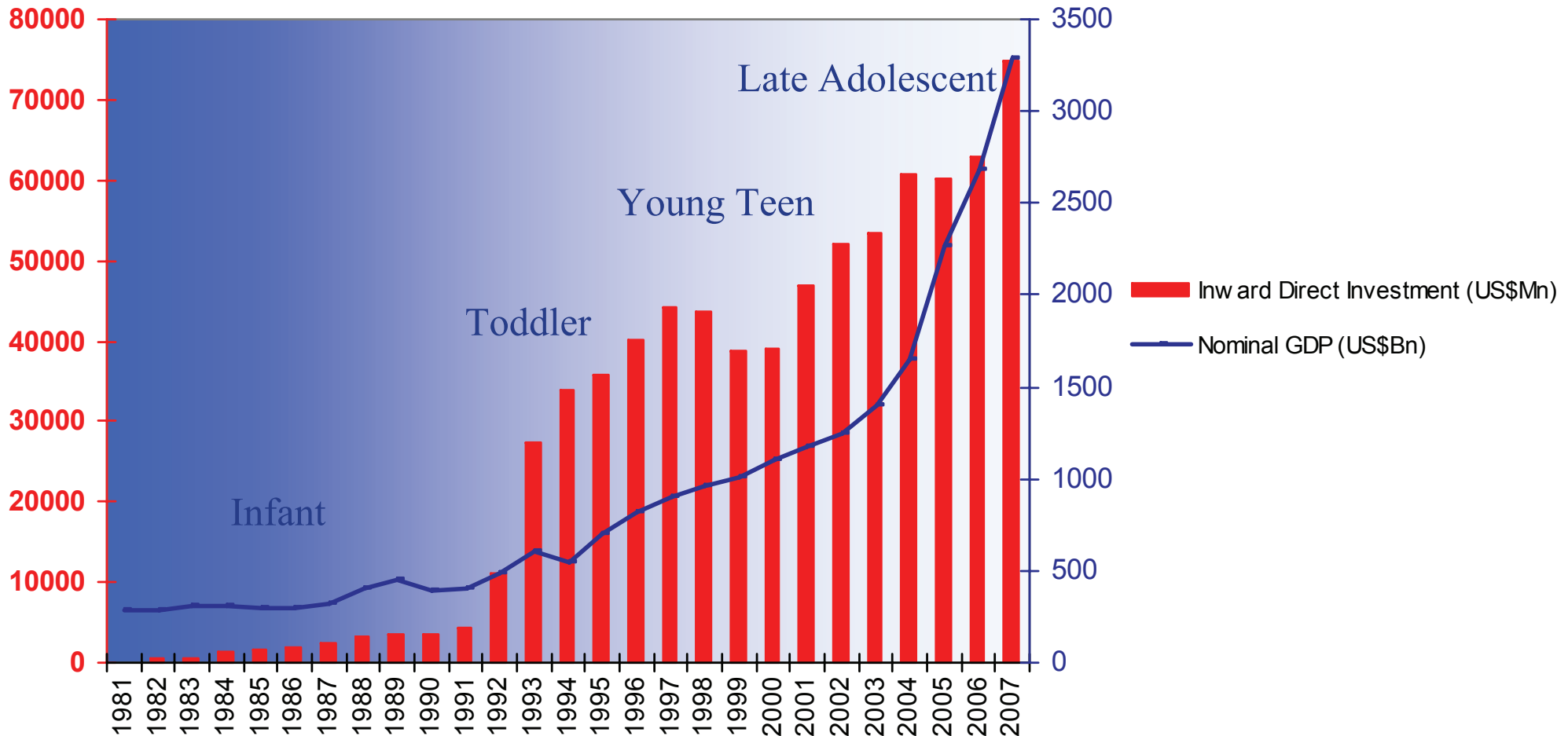


# Key Points

- A maturing market environment
- Painful lessons learned
- Recent changes in the landscape
- Pursuing a **dual strategic** approach through sourcing
- What's on the horizon for material handling?
- Opportunities, challenges and key principles

# China's Maturing Market

China is in a “late adolescent” phase in terms of market maturity.



# Painful Lessons Learned

- Structure before strategy
- A “snapshot” view of the market
- Unexpected competition – over supply
- Lack of due diligence in partner selection
- Not enough support for the local operation
- Naive financial planning

*Today, it's not about being there but about being good.*

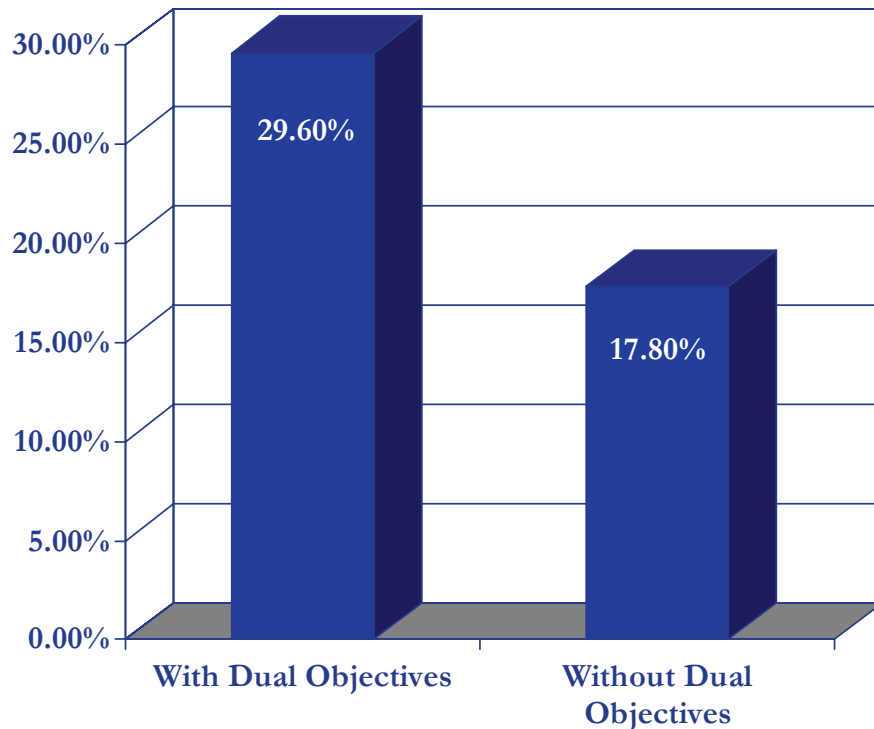
# Recent Changes in China's Landscape

- Reduction/elimination in value-added tax (VAT) rebate
- Renminbi (RMB) appreciation
- New Labor Law
- Doubts about the economy's health
- Concerns over quality
- Rising raw material and energy costs
- Changing acquisition regulations

# Dual Strategies

A key feature of China's “**late adolescent**” phase is that foreign companies realize significantly greater profitability when they utilize a “dual objectives” approach.

Average Profitability of Foreign Manufacturers  
in China with Different Objectives



## Dual Objectives

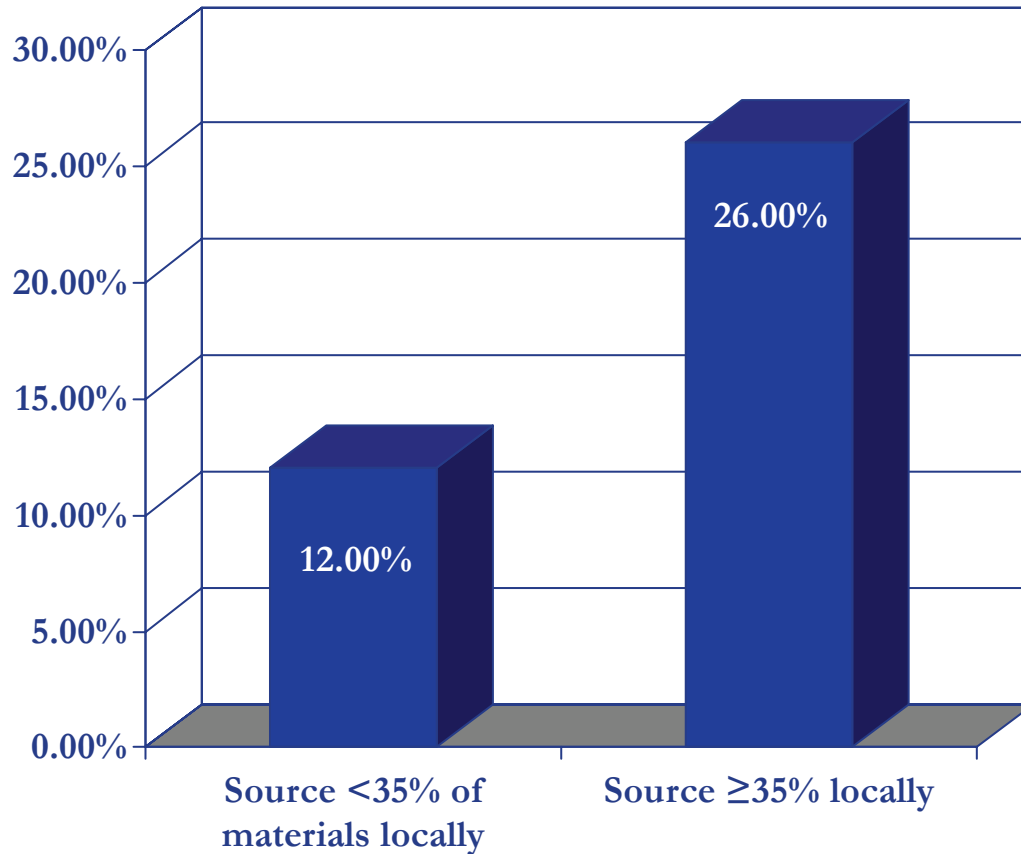
1. Top Line – going after China’s growing domestic market.
2. Bottom Line – using China as a source for low-cost product.

# Sourcing — Current Focus

- Increasing total China buy
- Migrating to strategic sourcing
- Re-thinking supplier relationships (vendor vs. partner)
- Diversifying geographic locations
- Optimizing the supply chain business model



## Average Profitability of Survey Participants



Companies are finding that they need to increase both the depth and the quality of their sourcing activities to achieve real and sustainable benefits.

# Moving to Strategic Sourcing



## Key Drivers

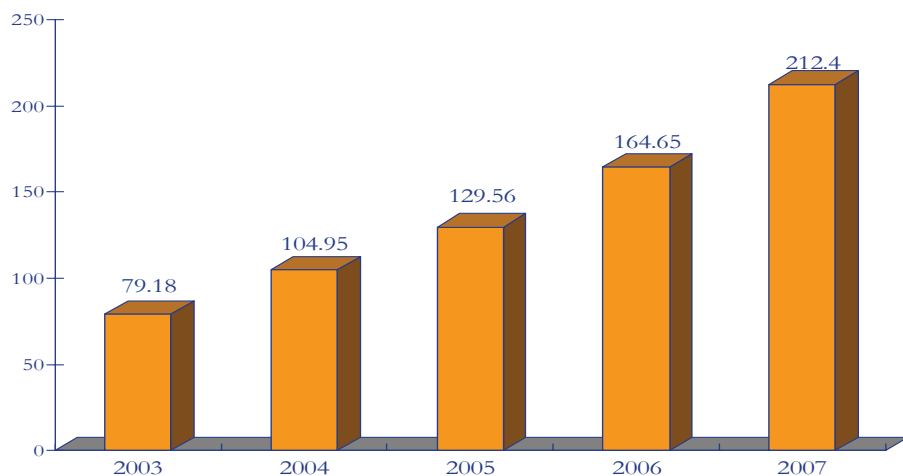
- Chinese suppliers extending out to the West.
- Big customers in the West setting up direct sourcing in China.
- Costs are going up.
- Securing quality supply will become more difficult.
- Need to optimize supply chain in every aspect to win.

- Localize sourcing responsibility.
- Leverage China capabilities for product development.
- Optimize total supply chain.
- Improve supplier relationships.
- Transform demand-supply processes.

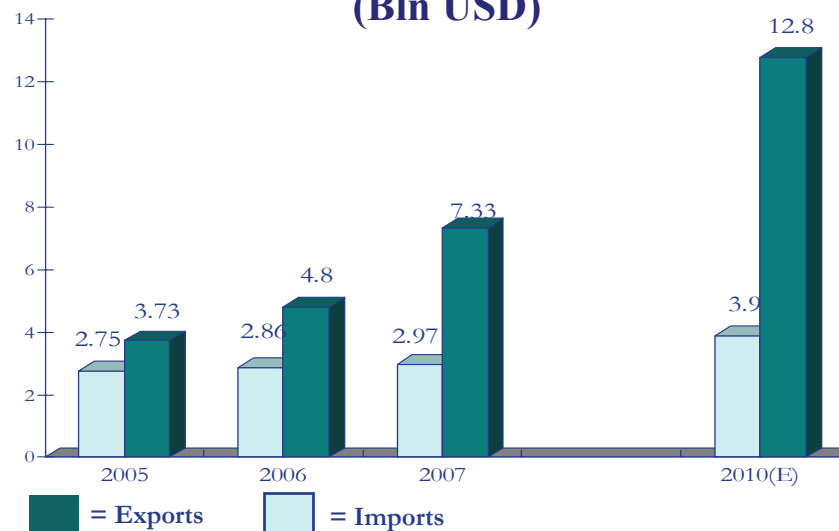
# Material Handling Market

China's material handling industry is growing aggressively as a result of continued construction and industrial expansion in China.

**Revenue of Equipment for Material Handling  
(Bln RMB)**



**Import & Export Value of Equipment  
for Material Handling  
(Bln USD)**



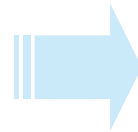
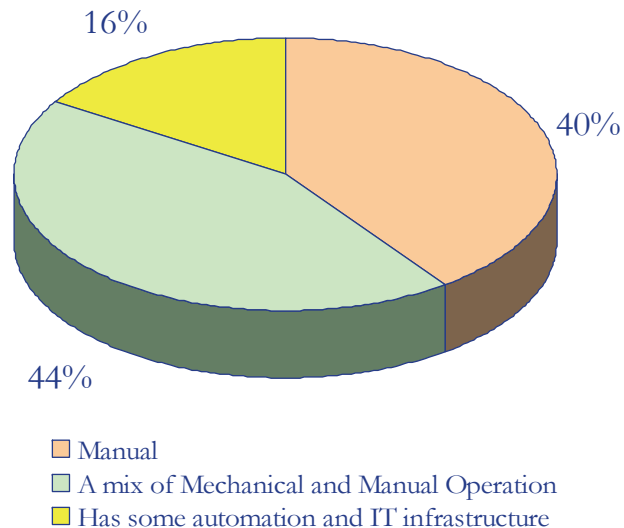
- **Material handling equipment sales have grown 25-30% annually over the last 4 years.**
- **Export value in 2007 is up 52% year-on-year, and trade surplus increased 124% over 2006.**

Source: *China Logistics Yearbook, China Federation of Logistics and Purchasing (CFLP), Technomic Asia research*

# Warehousing

Although China's logistics industry is developing rapidly, its level of technology is still embryonic.

Breakdown of Warehousing Operations in China



- **Low degree of automation.**
- **Only about 5% of warehouses have good IT systems; many Chinese companies are writing their own WMS programs, not being built to international standards, adding to difficulties of non-Chinese companies.**
- **Existing warehouses are in heavily populated areas, making truck traffic difficult.**
- **Lift truck usage is up to 70%.**
- **Until 2006, about 300 logistics parks were developed in China with no specialized warehousing.**

Source: China Development Institute, 2006, Technomic Asia research

# Opportunities for Cost Improvements

- Speed up the adoption of best practices.
- Integrate exports (sourcing) with domestic business.
- Invest in logistics and information systems.
- Integrate better with suppliers.
- Better manage/support shop floor operations.
- Integrate China with global supply chain.
- Create unified decision-making systems.

# Challenges of Gaining Profitable Share

- *Defining your addressable market*
- Dealing with the rapid pace of change
- Access to local markets
- *Being cost competitive*
- Dealing with counterfeits and IP infringement
- Understanding Chinese business culture
- Successfully China-fying your business model
- *Making good acquisitions*

# Some Key Principles of Success

- Strategy before structure
- Define your addressable market—where you can make \$\$\$.
- Consider “strange bedfellows” as partners.
- Be creative—don’t just transplant your Western business model.
- Controlling the operation is paramount (key management functions) ...
- ... But you don’t have to own everything to control it.
- Buy specific assets — start with a clean company whenever possible.
- Invest in *relationships*.
- Observe the 6 Ds – Due Diligence, Due Diligence, Due Diligence.

# Background on Tompkins Associates

# What We Do

- Tompkins Associates designs and integrates global end-to-end solutions that improve your supply chain performance and produce value-based results.
- We do this by being:
  - **Innovative** – Tailoring the latest supply chain best practices to your needs
  - **Experienced** – Leading hundreds of supply chain transformations worldwide for over 30 years
  - **Dynamic** – Harnessing change and turning its energy to your advantage
  - **Invested** – Taking on your challenges and treating them as our own
- We are focused on bottom-line results through innovation, integration, and implementation.



Worldwide Central Campus - Raleigh, NC



Tompkins Emerging Technology Center - Orlando, FL

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