Logistics Industry in Hong Kong Opportunities and Challenges

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Case Study of an Electronics Company

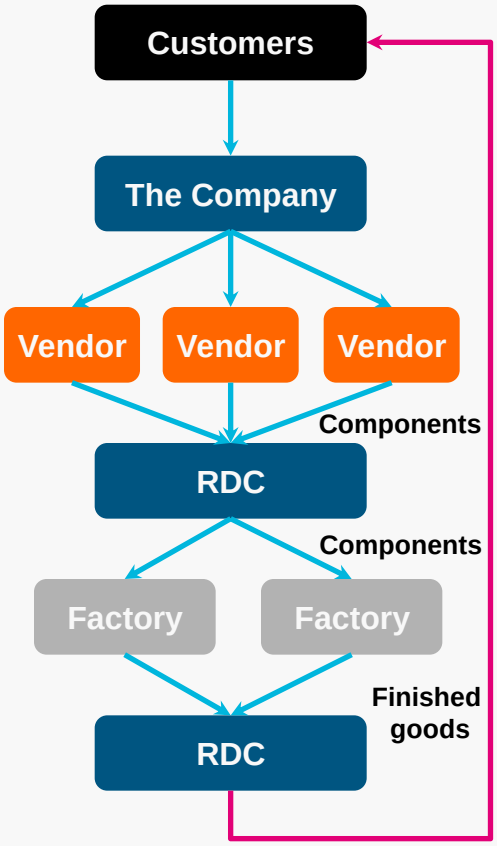
- **The Company has been involving in the selling of consumer electronics, security systems and electronic components for over 30 years.**
- **It has a *sales, marketing and procurement office in Hong Kong*.**
- **Of the products offered, the Hong Kong office is responsible for the procurement of components for its *projectors* and *TVs*.**
- **Facilities - At the moment, the Company has a *small RDC in Hong Kong*, while a *large RDC in Yantian Bonded Logistics Park of Shenzhen*. In future, the Company is looking to stream line its RDC operations in Hong Kong, while expanding its Yantian RDC.**





Business Model

- **The Company is one of the leading projectors producers in the world, which gained worldwide reputation.**
- **The Company has a simple business model:**
  - ✓ **The sales provide a forecast of projector demand;**
  - ✓ **The Company would then source the components required from its >150 vendors from all over the world and the components are stored at its RDC;**
  - ✓ **The components, gathered in bulk amounts, are then fed into its production lines and processing plants in China, Indonesia and N. America.**
- **The finished products are sold worldwide, with major markets in the U.S., Japan, Middle East and Africa – *2/3 of the finished goods are shipped by air, while remaining 1/3 are shipped by sea*.**



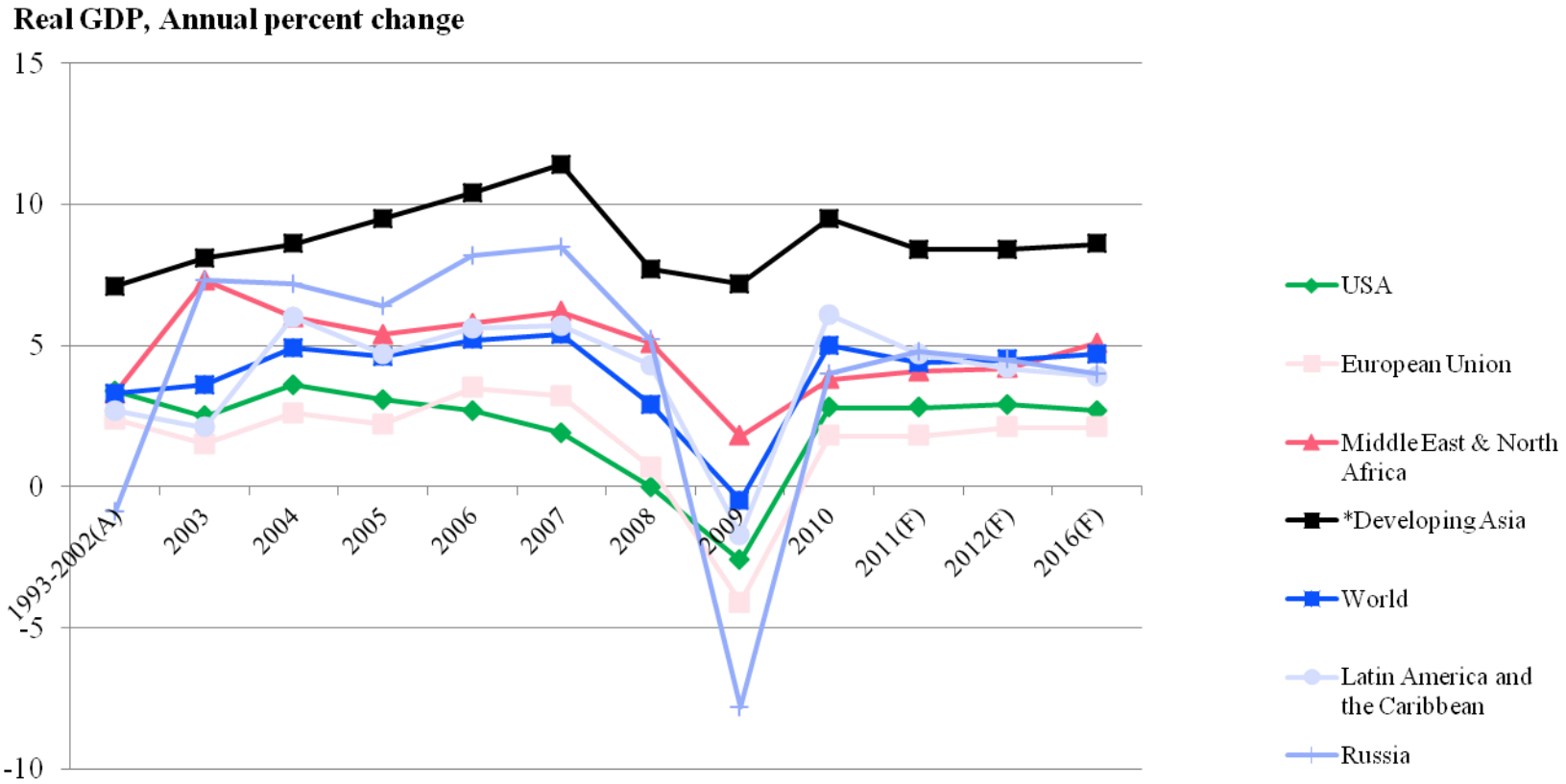
Shifting of RDCs locations

- **Over the years, the Company has been moving its distribution centre to and from Hong Kong:**
  - ✓ **Before 2003: RDC initially built in *Hong Kong*;**
  - ✓ **2003 – 2007: RDC moved to Futian Free Trade Zone mainly due to cost concerns;**
  - ✓ **2007 – 2009: RDC moved back to *Hong Kong* to shorten its lead time during the economic booms;**
  - ✓ **Since 2009: RDC moved to *Yantian Bonded Logistics Park* in response to the financial crises (though air cargo is still shipped through HKIA due to the much stronger infrastructure).**



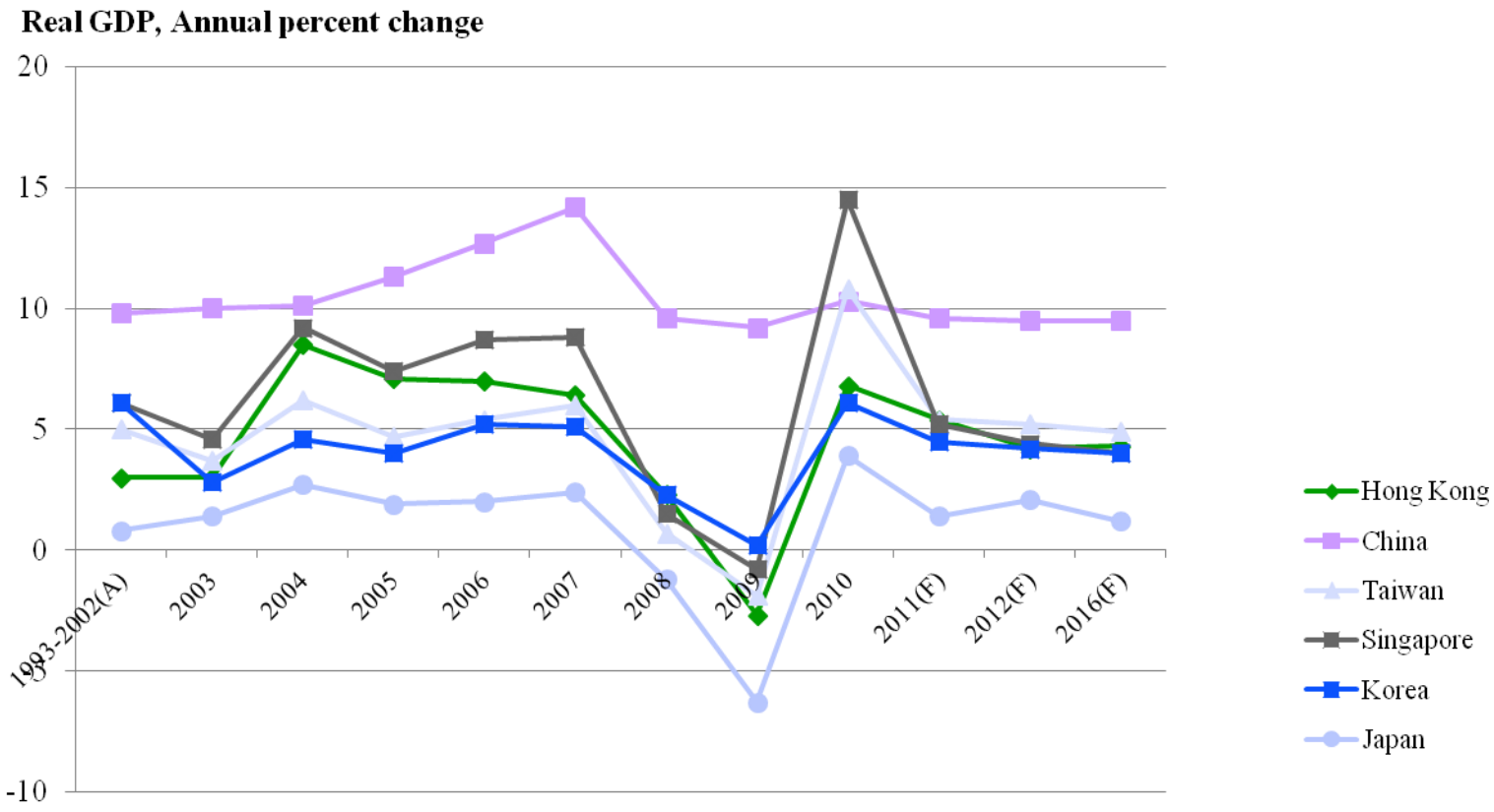
- **While the cost in Shenzhen is lower in general, Hong Kong's freeport status and connectivity stand out, attracting especially shippers who are time sensitive but less cost conscious.**

Global Economics



P.S. ***Developing Asia** excludes Japan, Hong Kong, Singapore, Korea and Taiwan
Source: International Monetary Fund

Asia Economics



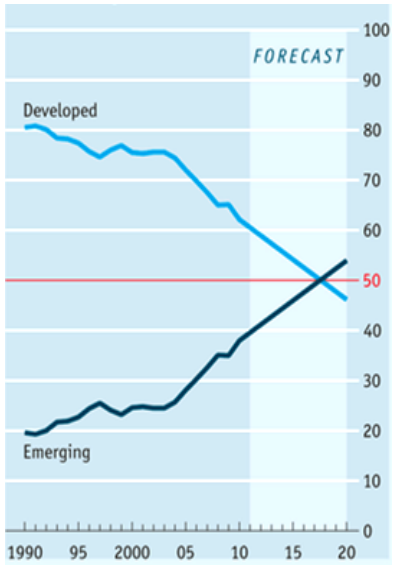
Source: International Monetary Fund

GLOBAL FORCE 1: POWER SHIFT

Real GDP per Person

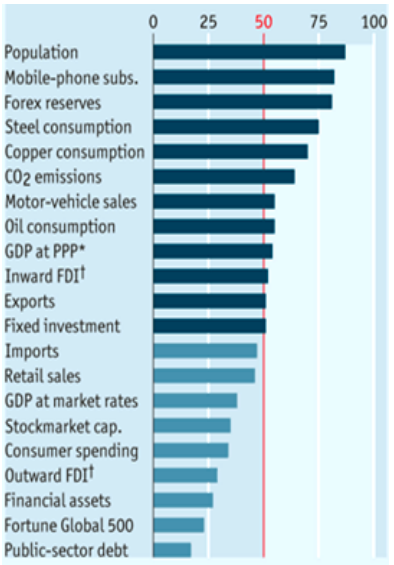


Economies' Share of World GDP, %



At market exchange rates

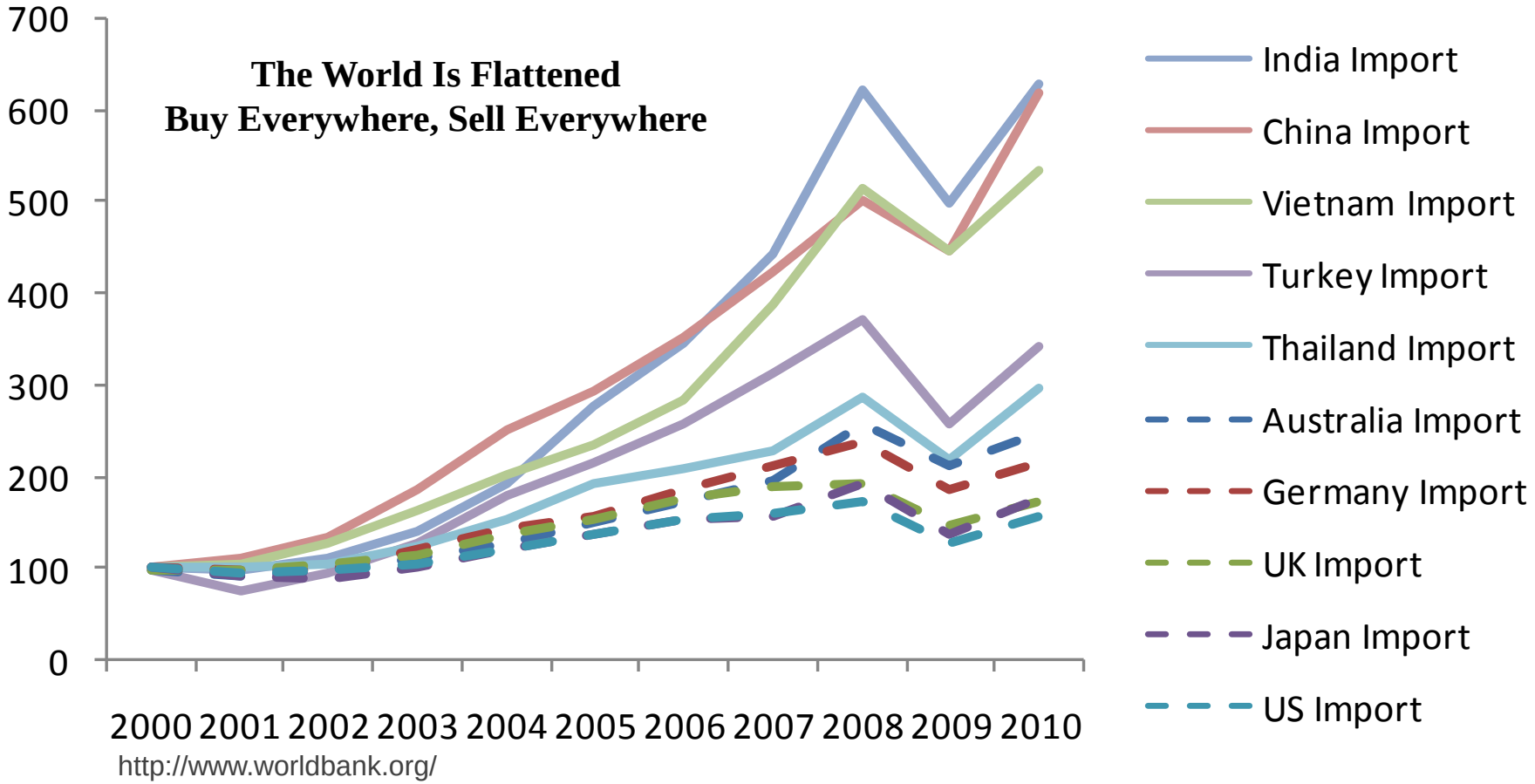
Emerging Economies' World Scale, 2010%



GLOBAL FORCE 2: VOLATILITY

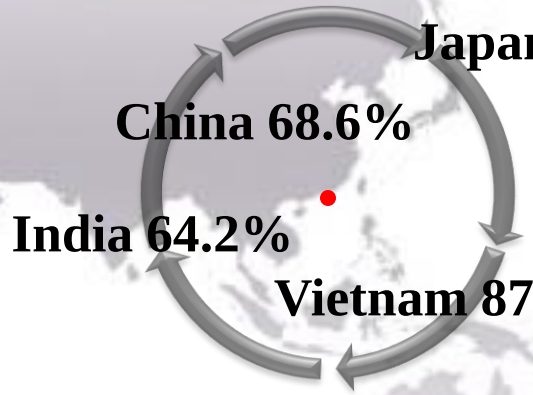


GLOBAL FORCE 3: GLOBALIZATION



http://www.worldbank.org/

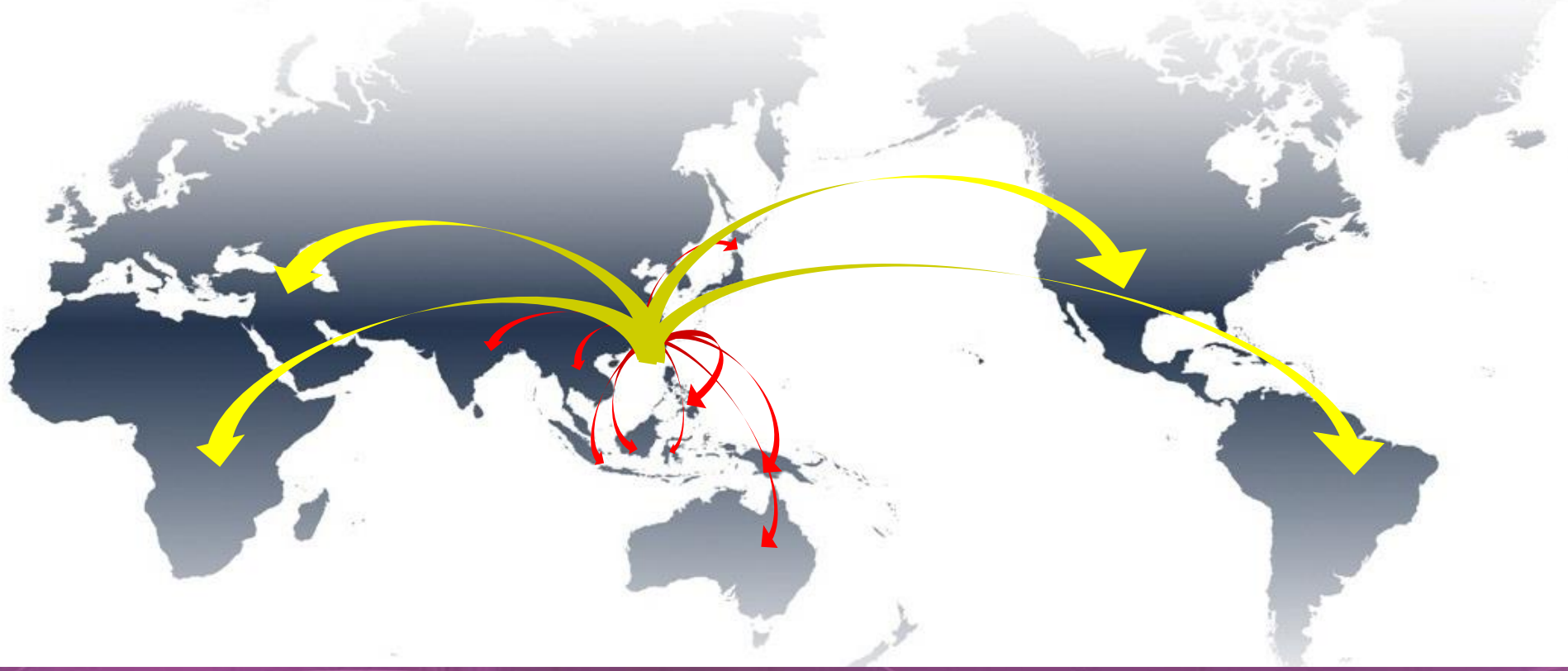
World is Revolving around US



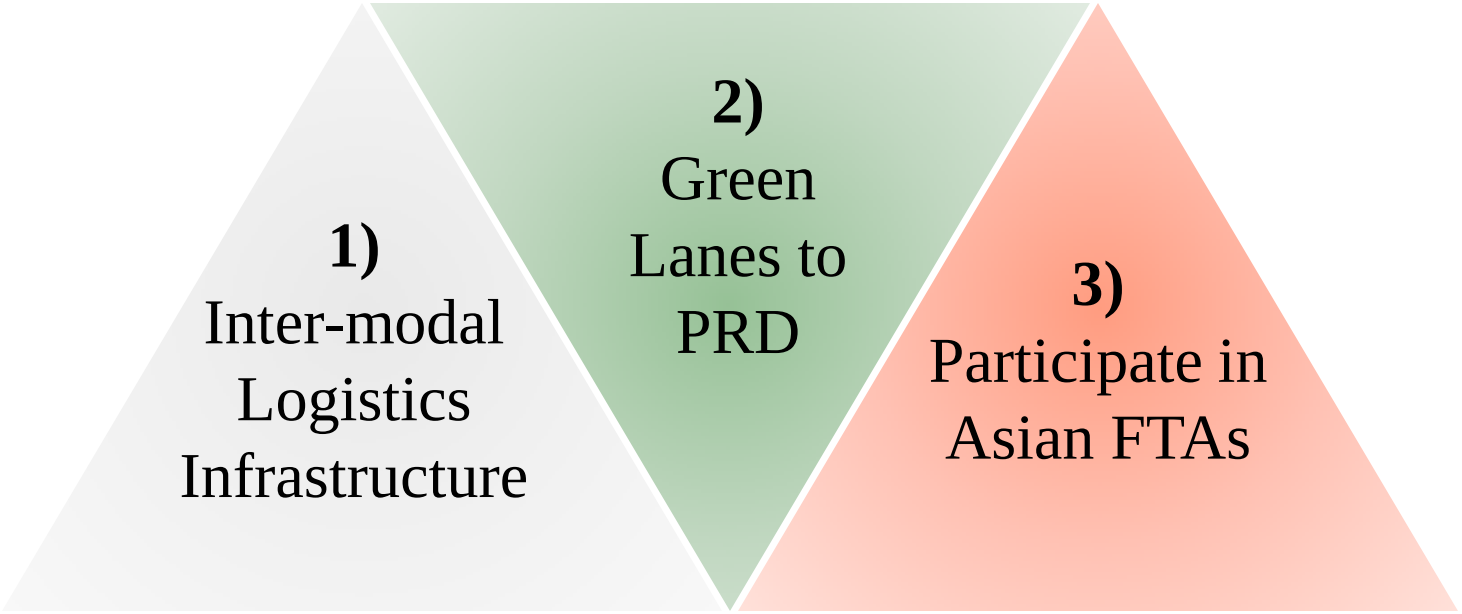
GDP Growth in 5 years

International Monetary Fund's World Economic Outlook (WEO) Database, April 2011 Edition

Hong Kong is the Optimal Regional Logistics Hub



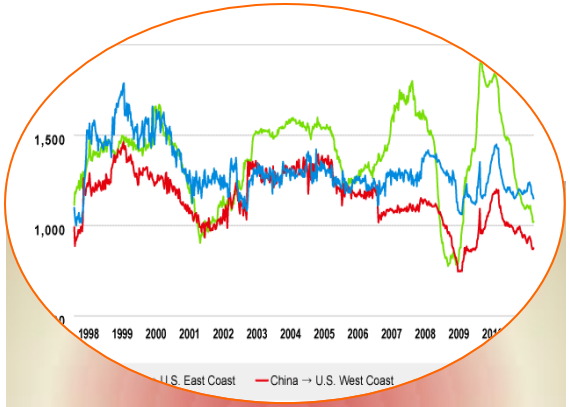
Supply Chain Opportunities



Supply Chain Opportunities



4) Fast Response Logistics and Agile SC Models



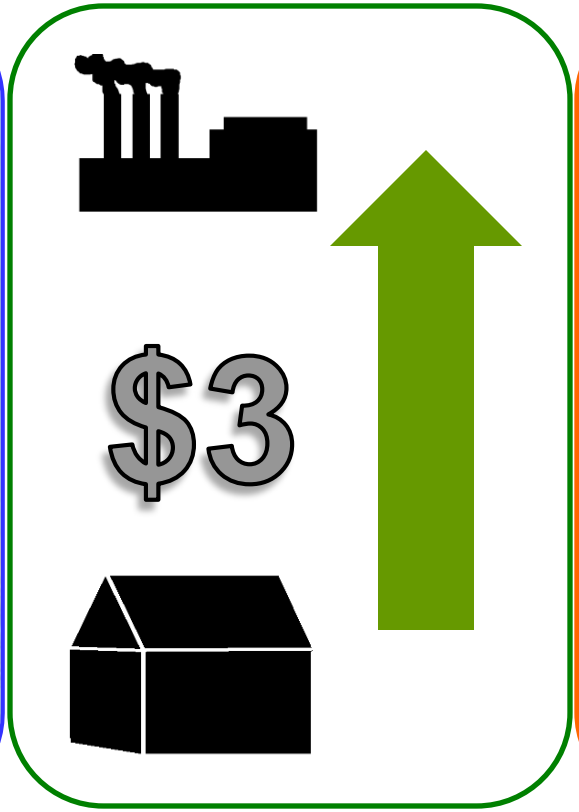
5) Global Freight Procurement and Hedging Centre

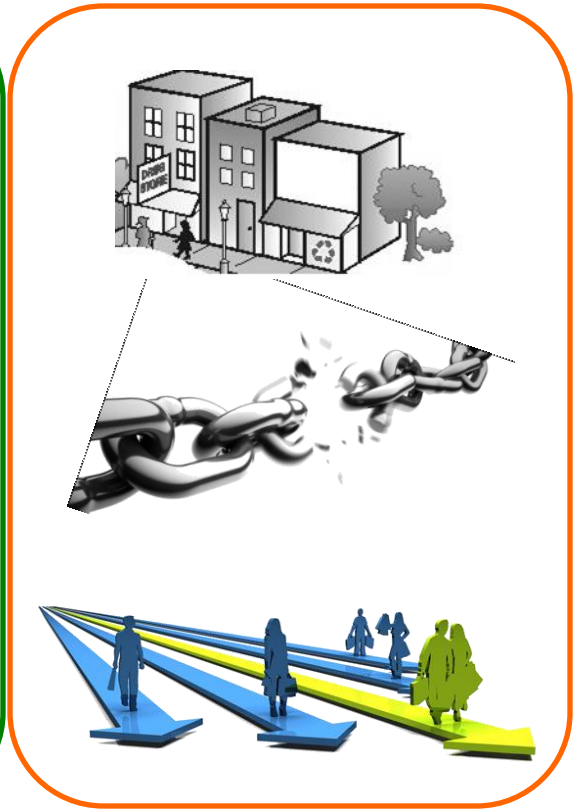


6) Move security measures upstream

What does this mean for The supply chain?

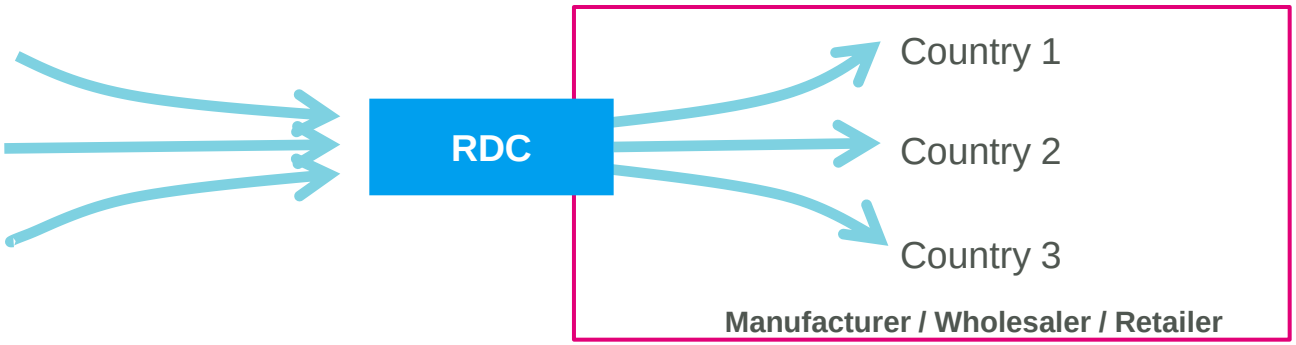






Regional Distribution Centre

- Distributing finished goods, or parts to the region for companies
- RDCs effectively reduce inventories, improve SC flexibility and reliability



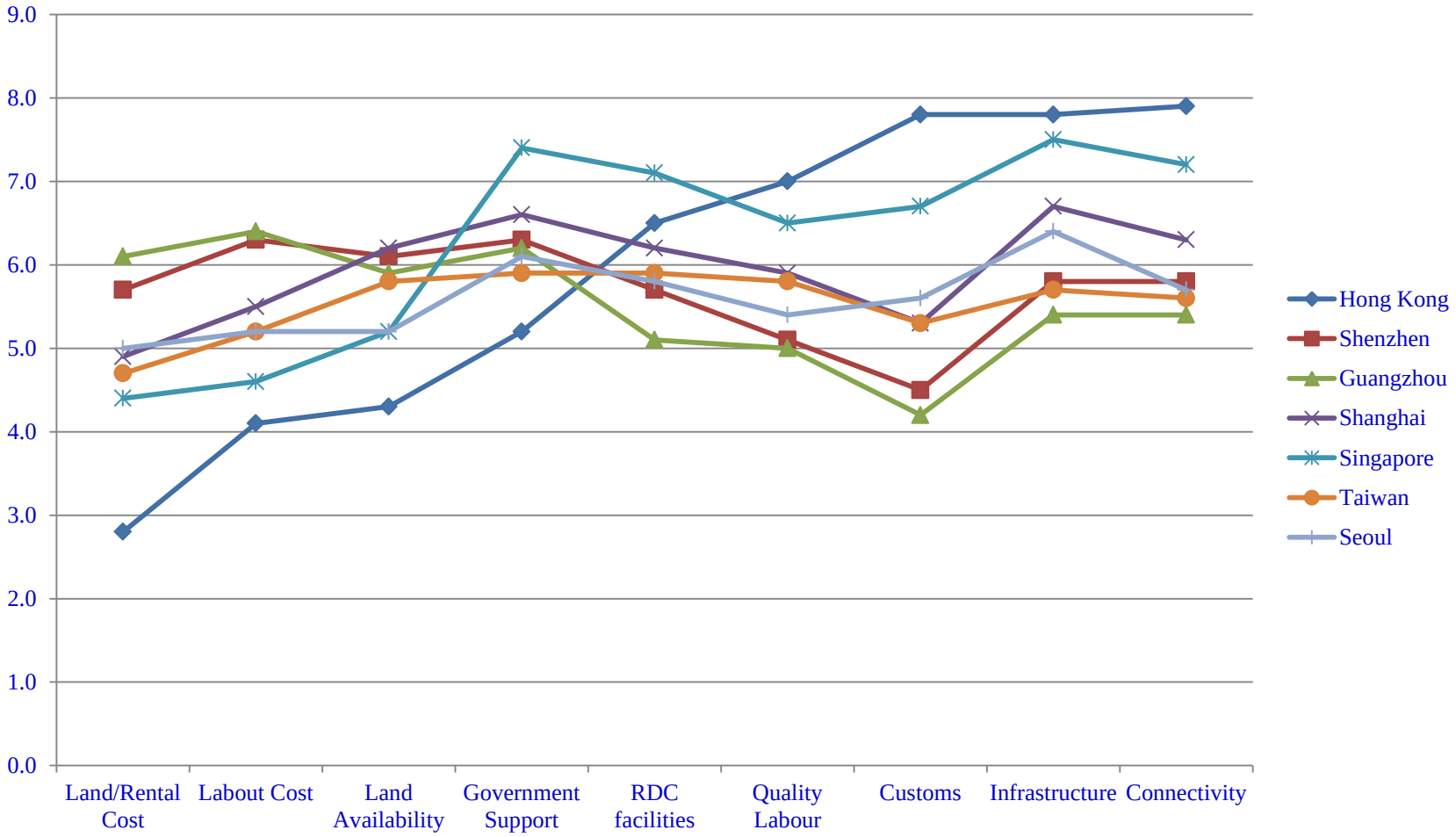
- All RDCs offer value-added services. Common ones include:
  - Packaging & repacking
  - Labeling & re-labelling
  - Quality check
  - Documentation & customs clearance
  - Compliance & Modifications

Factors for RDC Location Selection

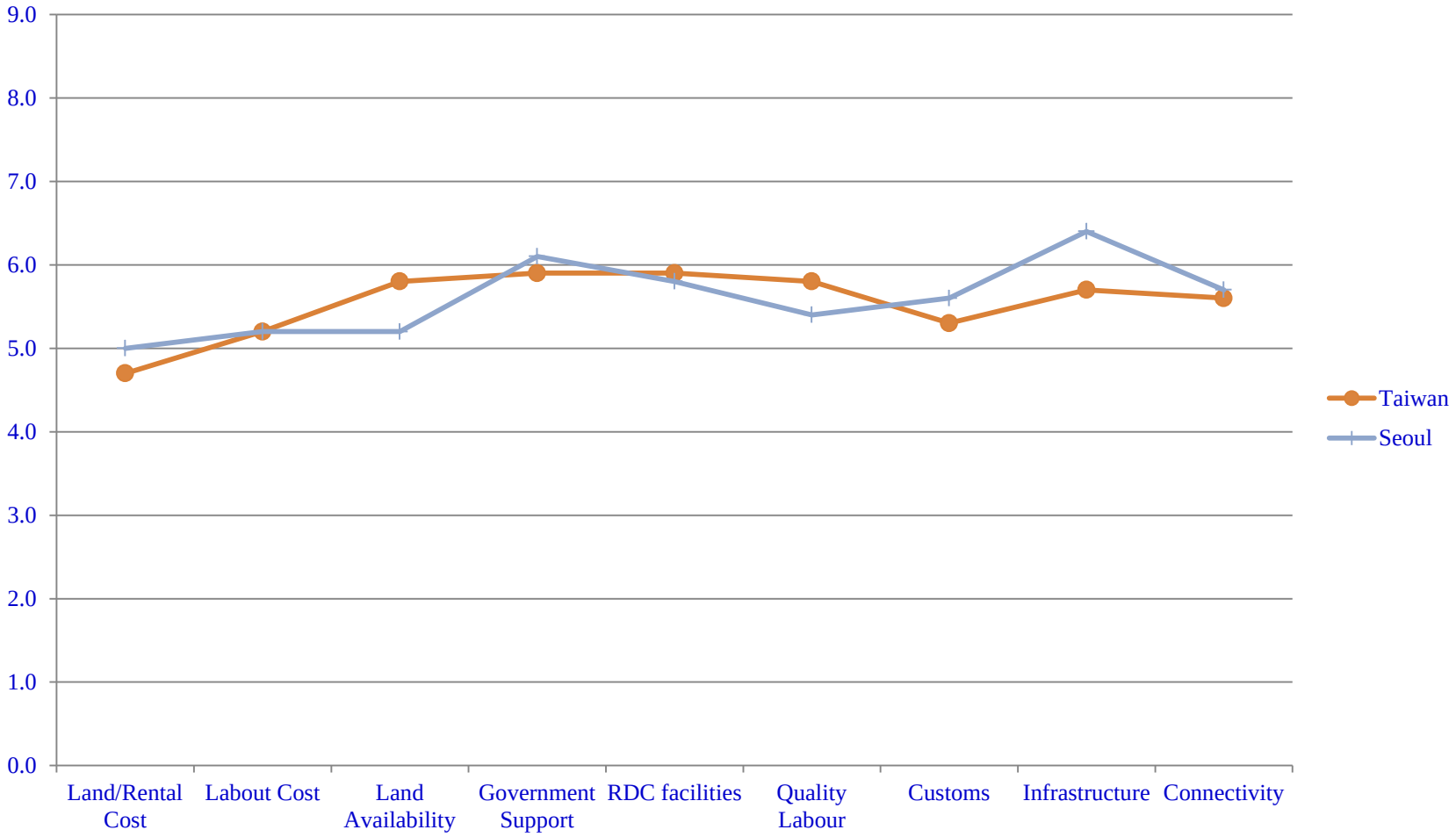
- The Study Team has identified a list of critical factors for RDC location selection.
- Location selection factors are carefully chosen based on ***literature***, ***brainstorming sessions with expert advisors***, and extensive ***stakeholder engagement*** exercises locally and abroad.
- Individual shippers or 3PLs may have different priorities for each factors when selecting an RDC location.

Factors
Costs
Land/rental cost
Labour cost
Operating costs
Public Services
Government support and policy regime
Customs clearance and tariff systems
Taxes and charges arrangement for the industry
Legal system
Infrastructures and Location
Public infrastructures, e.g. seaport and airport
Availability of appropriate RDC facilities
Connectivity/connections
Geographical Location
General Environment
Operational flexibility
Availability of logistics professionals
Efficiency of business environment
Supportive services

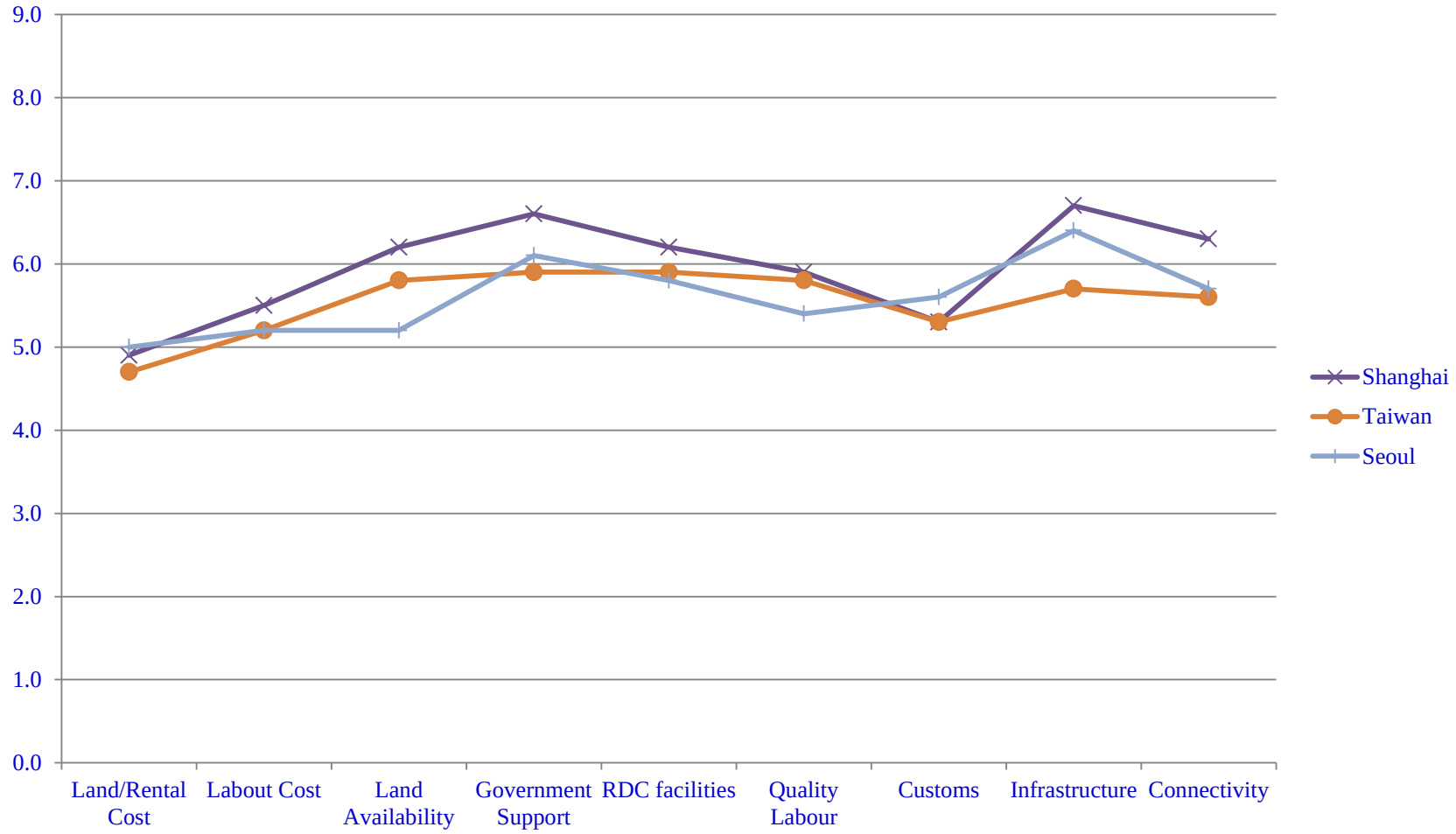
Competitive Factors Comparison



Competitive Factors – TW & SO



Competitive Factors – TW, SO & SH



Competitive Factors – GZ, SZ & SH

