

WHY CHINA'S SUPPLY CHAIN IS READY TO SHAKE THE WORLD

THE LINK

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Almost every number you hear about China is mind-boggling and its retail market is no exception. By 2020, its online grocery market alone — already the largest in the world — is forecast to be 60% bigger than the rest of the top 10 markets in the world combined.

But it's not just the sheer size of the market — not unexpected given the country's enormous population — that sets China apart. It is also increasingly its level of sophistication. China not only has the greatest number of mobile phone users, it is also the market with the highest penetration of mobile banking, with 60-70% of the population engaged, almost twice the penetration rates typically seen in Europe, for example.

So we have huge volumes, innovative solutions and empowered consumers. To continue to satisfy these unprecedented and growing demands into the future, China needs a world-leading supply chain. Yet the current picture is complex, with cutting-edge solutions such as drone deliveries existing alongside a highly fragmented, non-standardised and disparate array of processes, solutions and providers lacking the coordination, scale and awareness to drive end-to-end efficiency and opportunities for growth.

Despite this, and in fact partly because of this, China is in a unique position to be able to leapfrog more established markets and develop the next generation of supply chain solutions — responsive, resilient and interconnected. The following is why we think China's supply chain is ready to awaken and shake the world:

1. Lack of legacy: Although developed markets currently have far more standardisation in terms of pallets, vehicles and equipment, which helps to drive efficiency and improve flow, in many cases

their supply chains were developed for a world that no longer exists. Networks and processes to service big-box retailing are now being retrofitted with costly and complex solutions to meet the demands of a multichannel world driven by convenience for consumers.

China has a much cleaner slate, without being so tied in to heavily capitalised assets and automated solutions as in the West. It has the opportunity to develop new, agile solutions from scratch which meet the needs of consumers, particularly in its many mega-cities, focused on convenience and online services. This is where innovations will emerge.

The solutions China develops for its supply chains should not just replicate the current global "best in class", locking itself into the same cycle of leadership and inevitable legacy, but will take a radically different approach. The aim should be to ensure responsiveness whatever the future may hold, for example applying some of the ideas and principles of the physical internet, which face significant barriers in less agile markets, to standardisation and movement of goods.

2. Ambition and ability: As well as the opportunity to develop innovative solutions, China also has the ambition and motivation for change. The World Economic Forum identified that removing supply chain barriers can have a significant impact on the global economy. Improving border administration and transport and communications infrastructure halfway towards global best practices in every market would expand global GDP by almost 5%. That's why developing supply chains should not just be a priority for individual businesses but for governments and nations.

With the threat of a slowdown in the Chinese economy, and the current maturity of its supply chain, there is a huge opportunity to be seized. The government has also set provided additional motivation, with targets for reducing carbon emissions and investing in infrastructure featuring prominently in recent

five-year plans.

While China has the ability to move very rapidly with legislation, it's important to bring all of the many individual players in this fragmented market along on the journey to support growth for all, so other incentives will be important.

Unlike some fast-developing markets that are hostile to external ideas, China is very open to learning from international best practices. However, the principles need to be understood so that the solution can be adapted to work in this unique market. A recent survey by PwC found that 38% of multinational companies operating in China rated Chinese companies as more innovative than themselves in the supply chain (versus 27% rating themselves as more innovative). That spirit of innovation, allied with greater coordination and standardisation, can unleash transformational change.

Seizing the opportunity: Significant challenges remain, with fragmentation meaning that no individual company will have the scale to disrupt the market alone, and the journey ahead won't be easy, requiring coordinated and collaborative efforts. But as Sun Tzu said, "In the midst of chaos, there is also opportunity."

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