

# **MODERNISING TO COMPETE**

# **CHINA SUPPLY CHAIN INTEGRATION**

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## Modernising to Compete

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# China Supply Chain Integration

Global competition in manufacturing, distribution, and sales of manufactured goods is fierce; margins are shrinking while companies constantly look for new ways to increase their market share. The idea that “*Supply Chains, Not Companies*” are competing for today’s markets has been the topic of many recent industry discussions. Some of the latest buzz insists that it’s “Demand Chains, Not Supply Chains.”

Manufacturing is not new to Asia. After WWII, Japan emerged as a low cost manufacturer to the world. As its economy evolved much of that manufacturing moved to Taiwan, Korea and the other Asian “Tigers” as firms followed low cost labour and the incentive programs of some developing nations. With the opening of China an industrious low cost manufacturing venue was quickly developed by multinational companies from many different countries. China and other Asian developing countries are

critical supply chain links for a significant portion of manufactured goods sold around the world.

### **Supply Chain Members**

But how are demand and production currently managed in China? How are companies executing today? First we must understand the members of the China supply chain as well as some legacy issues of Asia manufacturing. The perspectives and requirements of each link in the chain are unique. Each member of the supply chain has an impact on how fulfilment occurs.

### **Original Equipment Manufacturers**

Original Equipment Manufacturers (OEMs) in China are most often Wholly Owned Foreign Enterprises (WOFEs) or joint ventures (JVs). In some industries, prior to China joining the World Trade Organization (WTO), JVs were required

by law as the only way to enter the China market. Since China’s WTO membership, WOFEs are now allowed in most areas. Numerous companies established their China operations at least 10 years ago. In most cases, management of the business was controlled by the foreign partner. IT decisions, quality control procedures, and operational guidelines were set by the international partner to assure that production met global standards while reflecting the image needed for their brand name. The majority of companies implemented Enterprise Resource Planning (ERP) which was modelled after key corporate production processes but not always localised for China business resulting in local “work arounds.” Chinese labour was cheap, so procurement, supplier management, and logistics used manual processes.

### **Tier 1 Suppliers**

Tier 1 suppliers, whether automotive, high tech, consumer packaged goods (CPG), or industrial have WOFEs and JVs similar to the OEMs, but they are most often locally owned. They are a mix of entities with management roots from Taiwan and local Mainland businesses. A significant portion of Mainland companies began as government manufacturers and were spun off so that they could be more independent. At the Tier 1 level you begin to see significantly less use of ERP and more plant level production planning systems with manual processes for all other company functions.

## Tier 2 Suppliers

Tier 2 suppliers are primarily local companies that are heavy users of manual processes and Excel spreadsheets for all business functions.

## Third Party Logistics Providers

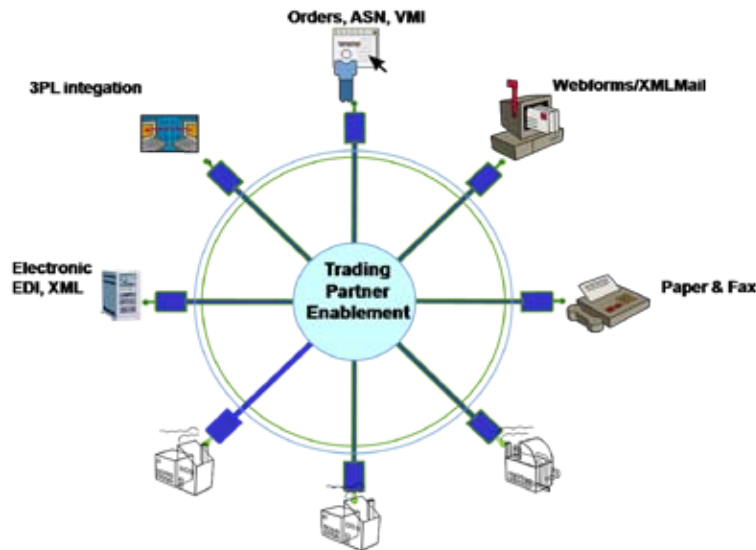
Third Party Logistics Providers (3PLs) are a mix of joint ventures, international companies who entered the market by acquiring domestic logistics companies, and numerous local transport firms. IT systems are often home grown, or a blend of commercial applications with a lot of customisation.

## Supply Chain Execution

A diverse range of companies and management styles with limited IT systems and many manual processes predominate. With that overview, let's return to the question of supply (and demand) chain execution. In both Europe and North America, a fundamental tool of Demand Chain or

# Trading Partner

## Enablement



Supply Chain Management (DCM / SCM) is the use of electronic communications with suppliers. This B2B (business to business) or EDI (Electronic Data Interchange) communication gives visibility to both the demand chain as well as supplier fulfilment capabilities. European and North American supplier adoption is often 80 per cent or more of the manufacturers supply base.

In China, supply chain management focuses less on IT, but more on manual business processes. EDI was rejected by most developing countries as too expensive, too complicated, or too unreliable. Even when EDI was implemented most suppliers didn't

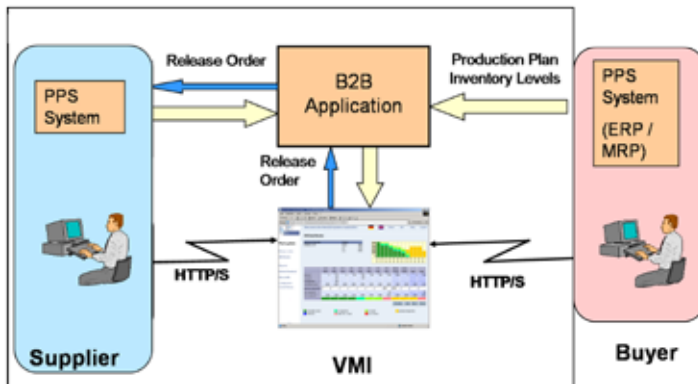
have ERP so it was "rip and read" (receive electronic transmissions, print them out, and key in a manual reply). "People power" makes the supply chain move in China via manual orders, confirmations, faxing of forecasts, manual goods receiving, invoicing, and reconciliation. Long lead times and the staging of buffer stock is a common practice to calm the bullwhip effect (waves of demand rippling through the supply chain).

Many leading multinational (and local) firms outsourced all their logistics and focused on internal operations, a practice which has carried on in present day China. Labour was cheap, costs were low, and margins were high so inefficiencies related to low technology solutions were less of a hindrance.

**However**, costs in China continue to climb, qualified staff is in high demand, customers require shorter lead times and margins are constantly eroding. Fortunately, internet usage and access to high band width connectivity continues to improve. IT solutions are stable, more reliable, internet enabled, and user friendly. Opportunities for world class demand management exist and execution is now feasible. While VAN EDI and "pay as you use" portals that typically plug into VANs are not popular, many OEMs and a reasonable percentage of Tier 1 suppliers have ERP so internet EDI-based system-to-system communication has potential with key partners. When suppliers can't do system-to-system communication (no ERP), internet-based solutions such as Web EDI can close the gap.

# B2B

## Application



## Supply Chain Problems

It is human nature to resist change and it takes a strong value proposition to drive adoption of any new supply chain initiative. So what do you do? Buffer stock is cash on the floor, long lead times result in unfulfilled demand. First, you need to determine where current problems or bottlenecks hide in your supply chain:

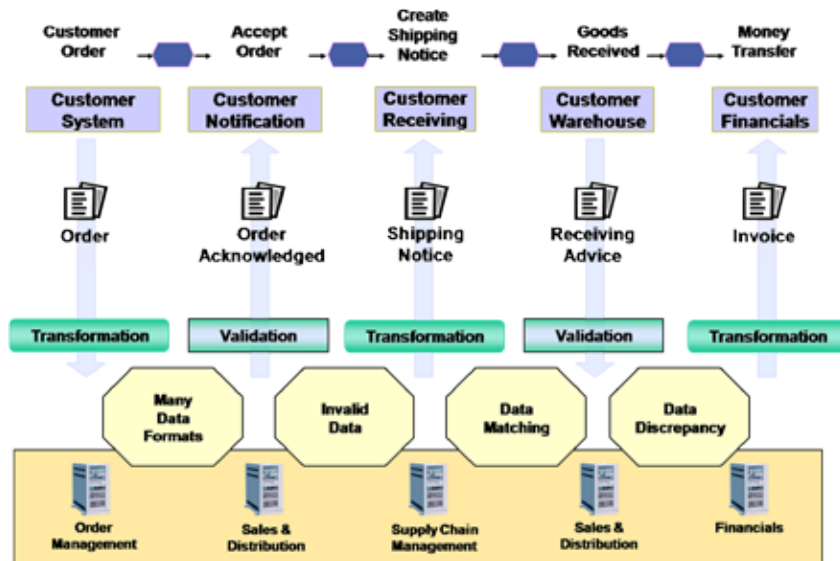
- Do your suppliers receive daily forecast updates, or are they weekly, or monthly? The faster your demand is visible to your trading partners the quicker your supply chain can react, regardless whether their systems are manual or not.
- Are your sent orders and supplier confirmations processed manually? Automating order management so that supplier-accepted orders are updated into your ERP automatically allows your purchasing team to focus on the problems. "Automate the mundane, manage by exception."
- Do suppliers provide Advance Ship Notices (ASNs) and are they accurate? Are they entered into your ERP system for better planning? This should be an automatic electronic update.

- Are deliveries bar coded for efficient receiving? Item, box, pallet and shipping documents?
- Do you provide Goods Received Notices (GRNs) with critical information so that supplier invoice generation and reconciliation for payment is simplified? When these are electronic, your supplier is more likely to import the data and use it.
- How much did your company pay for expedited shipments from suppliers or for deliveries to your customers as a direct result of China operations? This is an excellent key performance indicator (KPI) that is easily monitored. The more you are paying, the more broken links in your supply chain.
- How many days, weeks, months of buffer stock sit in your supply chain from end to end?
- Do you have regular write-offs for products or custom components that go obsolete before they can be sold or consumed?

Once you survey these processes you can develop a plan for process change. It may require new supplier interfaces (Web EDI or other B2B / EDI solutions for supplier integration), but often you will be able to make small changes for immediate effect while developing a long term plan with strategic investments for your optimal China supply chain.

# Competitive Advantage

## DCM / SCM



### Summary

The vast majority of China supply chains are not truly integrated, but capabilities of the supply base continue to evolve and local infrastructure is improving. As China manufacturing continues to capture global market share it must support best practice DCM / SCM or be disqualified by overseas markets. If your supply chain initiatives are sensible, cost effective, and easy to implement, suppliers can be convinced to work with you. Direct benefits to suppliers' business will provide strong incentive for change. Consider your competition; are they investing in their supply chain? Do you have a chance for competitive advantage, or do you need to play catch up? In today's global market, inaction is a dangerous proposition.

# Author Biography

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**Mr. James Hatcher**

**Managing Director of Seeburger Asia Pacific**

As Managing Director for SEEBURGER Asia Pacific, Mr. Hatcher is responsible for the regional business. He regularly works with multinational companies helping to define their supply chain strategy and operational infrastructure for Asia manufacturing and fulfillment. Via joint activities with key partners such as SAP, SEEBURGER has established itself as a premier B2B brand name in Asia Pacific.

Mr. Hatcher is a seasoned professional with over 24 years Asia Pacific experience who speaks Mandarin Chinese. Since 1996 he has been an evangelist of leveraging the Internet for Supply Chain Management and business collaboration. His abilities to succinctly explain the importance and positioning of electronic commerce for distributed business operations has led him to lecture extensively on this topic both in the United States and Asia to include Stanford University, MIT Sloan School of Business and Nanyang University Singapore. Mr. Hatcher was formerly with QAD Inc. as Director of Marketing, eBusiness & Supply Chain Asia Pacific.

# Publication Reference

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# Profile

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# SEEBURGER

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**SEEBURGER**, winner "Best Supply Chain I.T. Solution 2007" awarded by The China Supply Chain Council, is the only provider of B2B integration that helps companies achieve 100% trading partner integration – with a single platform. Our level of involvement could be as simple as a Quick Start to get your team on the right path or as extensive as managing the entire delivery and roll-out of your EAI and B2B initiatives. SEEBURGER today is driving the operational efficiencies of nearly 7,000 customers in 42 different countries, operating in more than 15 industries through its flagship B2B Gateway and related products and services. SEEBURGER has global offices in Europe, Asia Pacific and North America.