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国家邮政局发展研究中心
DEVELOPMENT & RESEARCH CENTER OF THE STATE POST BUREAU

China's Express Sector Development Report 2014.

Development & Research Center of The State Post Bureau /Deloitte
May, 2014

Contents

Chapter One Overview of Development of China's Express Sector

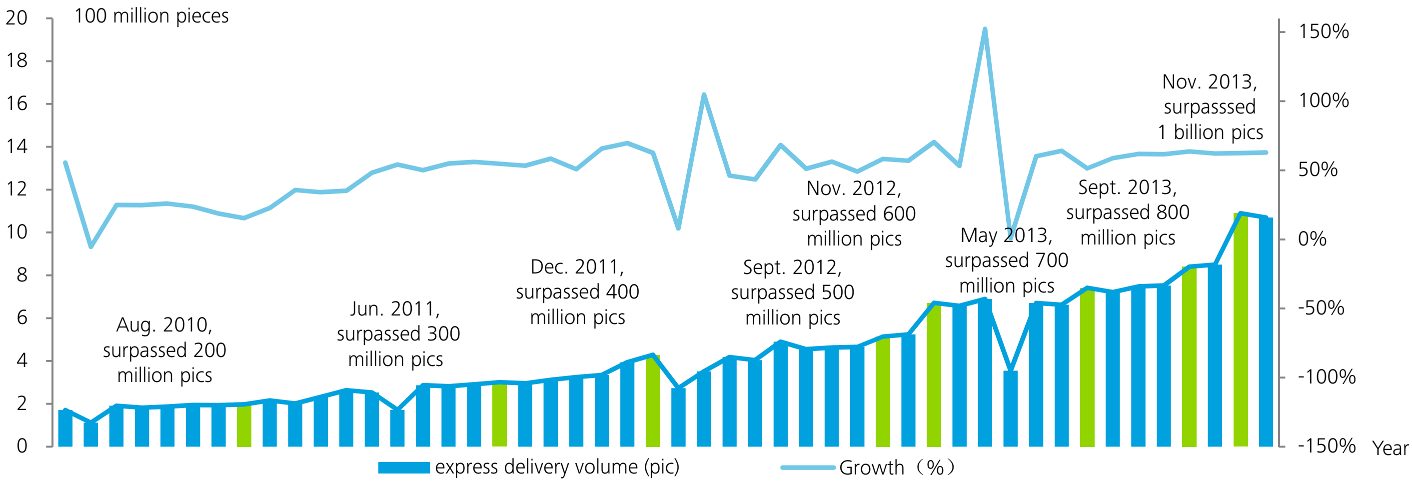
1.1 Current Status of China's Express Service Market

1.1.1 Rank No. 2 in the Express Service Market Size in the World

China's express industry is moving along in a growth momentum as the environment for development continues to optimize in China.

China's express industry completed a business volume of 9.2 billion pieces in total in 2013, bringing its market size to the second place in the world with a growth rate of 61.6% on a year-over-year (YOY) basis. Average daily business processing volume exceeded 25 million pieces across the country and the maximum daily processing volume broke the record of 65 million pieces. For the first time in history, the monthly business volume hit the one-billion-piece threshold in the single month of November. China's express delivery business volume more than tripled in the years from 2006 to 2013 at an average annual growth rate of 36%. The market has been growing at an unprecedented rapid rate of 57% annually on average especially since 2010. The monthly express delivery volume in November and December of 2013 both surpassed the yearly volume in 2006.

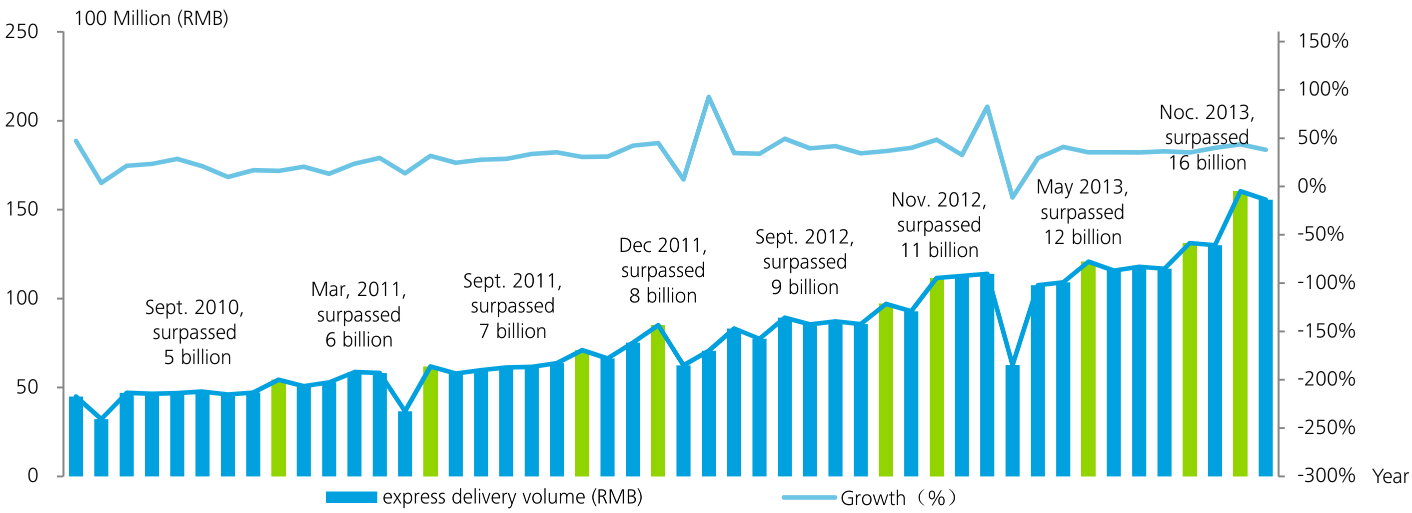
Figure 1.1 Changes in the express delivery volume from January 2010 to December 2013



Data sources: State Post Bureau (SPB) website

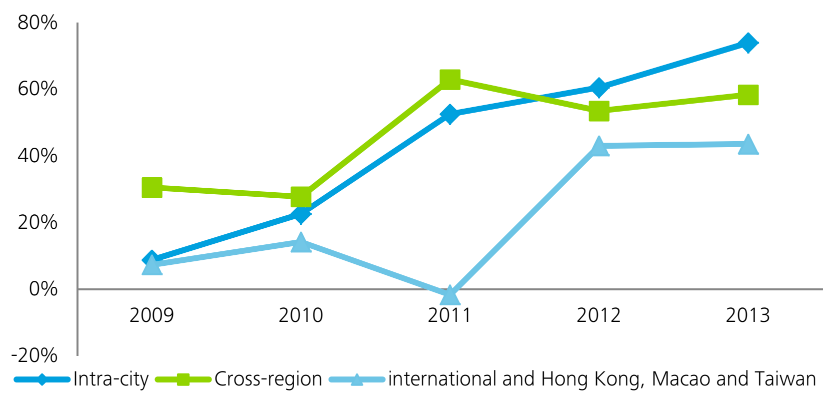
In 2013, the total operating income generated by China's express enterprises reached RMB144.2 billion with a YOY growth rate of 36.6%. The income in the single month of November broke the record of RMB16 billion, which is a record high in the history of express delivery for the month of November. The income in express delivery nearly quadrupled from 2006 to 2013, growing at an annual rate of 25.6%.

Figure 1.2 Changes in the express delivery income from January 2010 to December 2013



Data source: SPB website

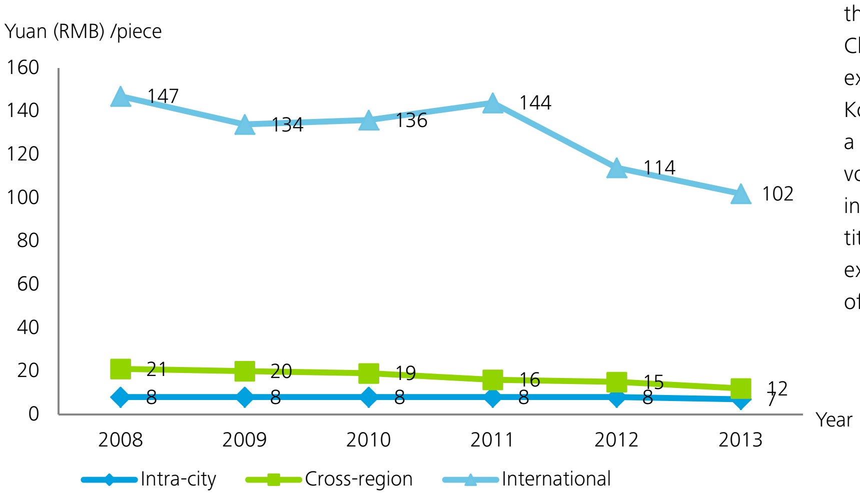
Figure 1.3 2009-2013 YOY yearly cumulative growth rate in delivery business in intra-city, cross-region, international and Hong Kong, Macao and Taiwan



Data source: SPB website

The overall market indicates that cross-region deliveries predominate in the whole express delivery. The cross-region delivery business and operating income accounted for 70% and 60% respectively of the total express delivery volume and operating income in 2013, higher than the percentage of intra-city delivery and delivery to and from Hong Kong, Macao and Taiwan. While the recent YOY growth rates in cross-region delivery volume and operating income remain at around 50% and 30%, the intra-city delivery business has shown a strong growth rate since 2011 that is a distant leader over cross-region, international and Hong Kong, Macao and Taiwan business, as well as the overall growth rate of the express industry. In 2013, the YOY growth rate in intra-city delivery volume remained at 80% across the board, surpassing that of the cross-region business by about 20% on average and nearing 30% of the total express delivery business volume.

Figure 1.4 Unit price in China's express service market



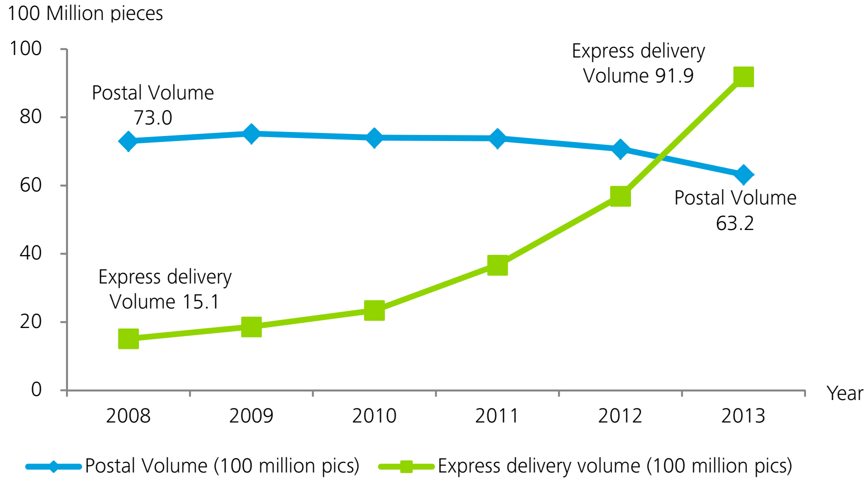
Data source: SPB website

Compared to the continuous higher growth rate in the express service market than that of the GDP in China for the past ten years, the unit price in the express industry, cross-region, international and Hong Kong, Macao and Taiwan businesses have followed a downward trend. The growth rate in business volume has outpaced that in the income in the express industry, which is a reflection of an increasing competition in the industry especially in the E-commerce express delivery field that results in the continued drop of the unit price.

1.1.2 The ability to serve the livelihood of the common people by the express delivery service has improved

The express delivery business has witnessed an apparently increased weight among the major businesses in the post industry. The percentage of the income from express delivery service over the total income of the post industry has increased to about 60% presently from 40% in 2006. For the first time in history, the express delivery volume surpassed the postal volume in the first quarter of 2013, which indicates that the demand for express delivery services by Chinese consumers has been growing rapidly and has overtaken the demand for postal products of the same kind. The demand for modern and diversified sending and delivery services has outpaced the demand for the traditional and single communication products.

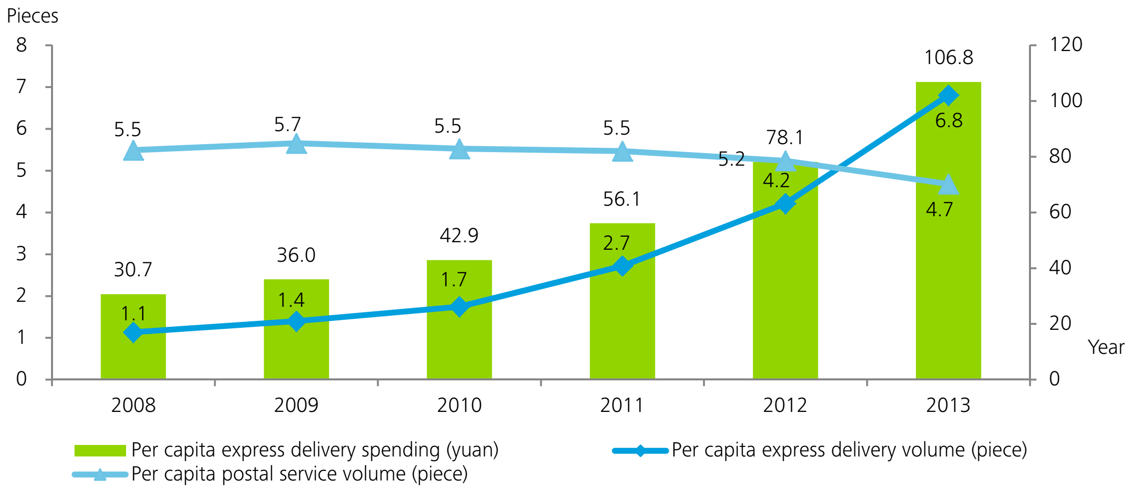
Figure 1.5 Postal service volume vs express delivery volume in 2008-2013



Data source: SPB website, China Statistical Yearbook

The express delivery's ability to serve the life and consumption of the common people has constantly improved. In 2013, the industry completed a total delivery of 9.2 billion pieces. Given the total population of 1.35 billion in China, the annual per capita express delivery volume was 6.8 pieces and the annual per capita spending on express delivery was RMB106.8. Comparatively, the annual per capita express delivery volume increased by 6 pieces this year than 2008, which surpassed for the first time in history the per capita postal volume (4.7 pieces), and the annual per capital spending increased by RMB76 this year than 2008.

Figure 1.6 Per capita express delivery service volume, postal service volume and express delivery spending in 2008-2013



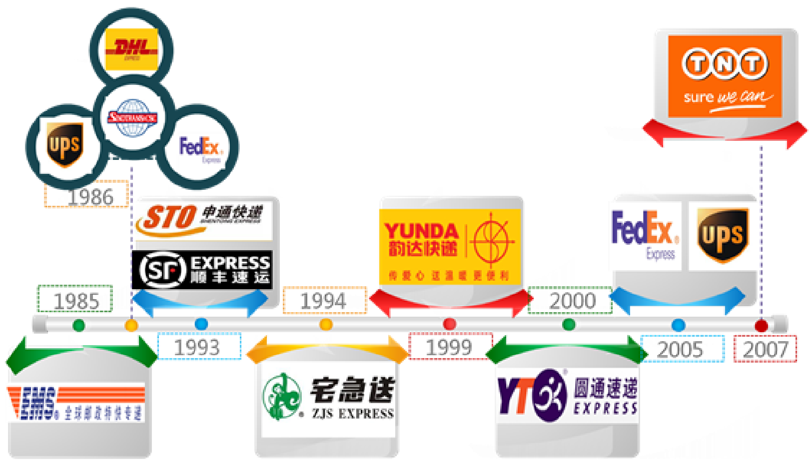
Data source: SPB website

1.1.3 Regional express delivery business scale

In 2013, the express industry has witnessed some healthy and rapid development in key economic regions such as the Pearl River Delta, Yangtze River Delta and Beijing-Tianjin-Hebei Region. These key regions took up over 70% of the shares in both the volume and operating income of the express industry in the country, which displays an apparent characteristic of spatial aggregation in the express industry in China. The Yangtze River Delta region leads the three regions by scoring an annual volume of 3.35 billion pieces and an operating income of RMB58 billion from the express delivery services, growing at 63% and 43% on YOY basis and accounting for 37% and 40% of total national express industry respectively. The Pearl River Delta region posted a business volume of 2.11 billion pieces and an operating income of RMB33.7 billion from the express industry, growing by 58% and 37% on YOY basis and both accounting for 23% in the national express industry. The Beijing-Tianjin-Hebei Region accomplished a business volume of 1.11 billion pieces and an operating income of RMB14 billion from the express industry, growing by 66% and 10% respectively on YOY basis and accounting for 12% and 11% in the national express industry.

In 2013, Guangdong, Zhejiang, Jiangsu, Shanghai and Beijing topped the chart in terms of the scale of express industry. Guangdong had the highest percentage among these regions, taking up over 20% of the national share in both the business volume and operating income while Zhejiang had the fastest growth rate. The YOY growth rate was over 50% in both two areas.

Figure 1.7 Development history of major express enterprises in China



1.1.4 Major participants in express industry

Similar to the route in the development of modern express delivery, China's modern express delivery service was, for a long period of time, provided in the form of express mail service by China Post Administration. It was not until the service grew to a certain scale that business entities of other nature started to emerge. In the mid to late 1980s, UPS, FedEx and DHL started to establish joint venture international cargo transportation companies with Sinotrans Group to operate the international express delivery service in China. Following China's official entry into WTO, UPS and FedEx set up wholly-owned subsidiaries in China successively to carry out the express delivery business in China since 2005. In 2007, TNT started its own operation in China through acquiring a Chinese company.

Deng Xiaoping's speech made in his southern tour in 1992 gave a boost to the development of private express delivery in China, represented by the establishment of STO Express and SF Express in 1993, ZJS Express in 1994, Yunda in 1999 and YT Express in 2000.These private enterprises emerged in the regions with developed private economy such as the Yangtze River Delta and Pearl River Delta by delivering business documents and small parcels at a lower service fee in the service form of "door-to-door, desk-to-desk" delivered within the committed time. By providing such a differentiated service from the express mail delivery service offered by the post administration, these private enterprises quickly rose to transform China's market from "dominance by one big player" to "participation of numerous players". In 2013, more than 8,000 express enterprises with over 20 major brand names were operating in China.

(1) Development of major brand express enterprises

2013 was a fairly good year for all the major express enterprises. Among the 20 major express brand names across the country, EMS, SF, STO, YT, ZTO, Yunda, Tiantian, HTKY,ZJS and CCES were the top ten with a combined business volume accounting for 87% of overall express delivery business in China.

Data source: Reports from SPB and other related materials

(2) Degree of brand concentration in express industry

China's current express service market is characterized by the transformation from the monopolized structure dominated by EMS to the multiple structure full of competition by multiple players. Since 2007, the degree of competition has been increasing in the express industry and concentration has been decreasing. The share of the aggregate income from the top four enterprises (CR4) has dropped from 70.6% to 55.9% and the share of the aggregate income from the top eight enterprises has dropped from 86.4% to 80%.

(3) Operation mode of brand express enterprises

China express enterprises expand their business through self-operation or franchise. In the self-operation mode, the express enterprises invest in, construct and operate their own express delivery network including infrastructures such as distribution center and outlets in each city. The self-operation mode is easier to manage, and financing and the level of service can be ensured. In the franchise mode, enterprises build their service network by involving other participants through franchise where the franchisors are mainly responsible for the construction of fundamental operation and management platform at the enterprise headquarters. Both the franchisors and franchisees are independent enterprise entities whose conducts are defined and restricted by the franchise agreement. The franchise mode meets the requirement for a wider geographic coverage and dense outlets in E-commerce business delivery and satisfies the need of low cost in the early stage of E-commerce development. Now, other than EMS, SF and the foreign-owned FedEx, DHL, UPS and TNT that operate on self-operation mode, other brand enterprises, namely the "Four Tongs and One Da", are mainly operating in the franchise mode.

In recent years, some changes are happening to the operational mode in China's express enterprises that are moving toward a mixed development mode. Enterprises that operate in the self-operation mode have started agency cooperation or employee franchise at the terminals. Meanwhile, the headquarters of enterprises have begun to engage in M&A activities to tackle the problems of insufficient number of outlets or inadequate supervision over the service process.

Data source: Research results from the Development & Research Center of the State Post Bureau and other related websites

Figure 1.8 Market concentration in business volume in recent five years

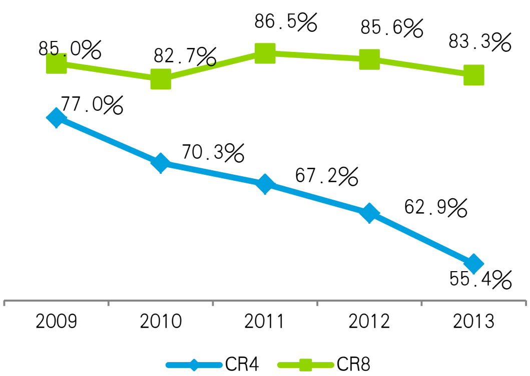
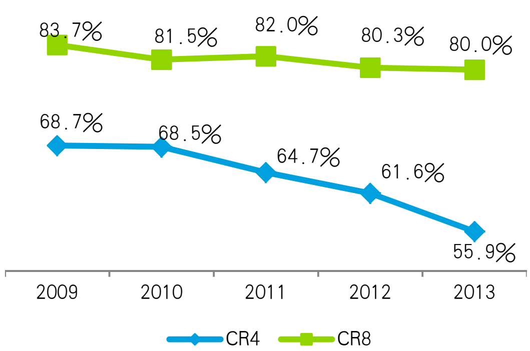


Figure 1.9 Market concentration in business income in past five years



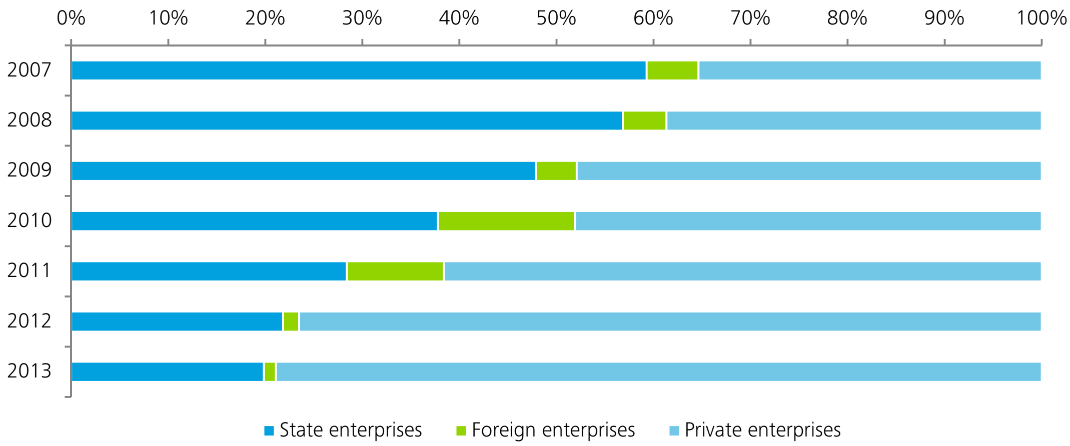
Data source: Reports from SPB and other related materials

(4) Comparative analysis on operations by the state, private and foreign enterprises

Private express enterprises have been growing at a high speed. In 2013, the private express enterprises completed the delivery of 7.25 billion pieces, a growth of 69% on YOY basis that surpassed that of the state and foreign enterprises by 28% and 56% respectively. Meanwhile, private enterprises fetched RMB9.738 billion in operating income, growing at 52%, which led the state and foreign enterprises by 55% and 2% respectively. The business volume and operating income by the private express enterprises accounted for 79% and 68% of the overall express delivery volume and operating income respectively in the country in 2013 and are still increasing.

In terms of business volume (see the figure below), the market share gained by private enterprises climbed from 35.4% in 2007 to 78.9% in 2013, increasing by 43.5%, while the market share by the state enterprises declined from 59.3% in 2007 to 19.9% in 2013, decreasing by 39.4%.

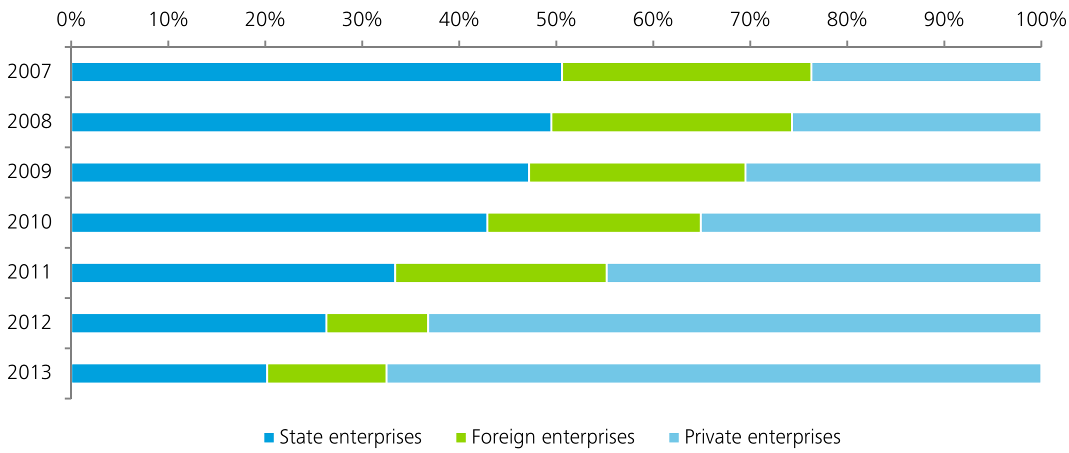
Figure 1.10 Business volume structure in enterprises of different ownership 2007-2013



Data source: Related contents on SPB website

In terms of operating income (see the following figure): The market share gained by private enterprises climbed from 23.7% in 2007 to 67.5% in 2013, increasing by 43.8%, while the market share by the state enterprises dived from 50.6% in 2007 to 20.2% in 2012, decreasing by 30.4%.

Figure 1.11 Operating income structure in enterprises of different ownership 2007-2013



Data source: Related contents on SPB website

(5) Performance of state, private and foreign enterprises in different express service markets

If measured by express delivery volume, the intra-city express delivery is dominated by private enterprises that account for nearly 90% of market share. Other than EMS, the state enterprises including Sinotrans or civil airlines do not have intra-city express delivery services. The state enterprises only account for 10% of the market share. Foreign enterprises do not engage in intra-city express delivery service. The cross-region express service market is also dominated by private enterprises that account for nearly 80% of the market share with the remainder split between state enterprises (20%) and foreign enterprises (0.2%). The international, Hong Kong, Macao and Taiwan service market is evenly divided among the three major players with private enterprises taking a slightly higher portion of 39.2% market share, state enterprises taking 32.5% share and foreign enterprises gaining the remaining 28.3%. When it comes to operating income, in the area of intra-city delivery service, private enterprises gained nearly 90% and the share of state enterprises is less than 20% while foreign enterprises do not have intra-city income. The private enterprises also dominate the cross-region operating income with approximately 80% share. State enterprises take another 20% while the foreign enterprises have a share of 0.6%. In the area of international, Hong Kong, Macao and Taiwan express delivery service, foreign enterprises are a distant leader by taking half of the market share and both the private and state enterprises have less than one-fourth of the market each. Specifically, the percentages of operating income by foreign, state and private enterprises are 53.5%, 21.9% and 24.6% respectively.

Affected by factors such as market access, market positioning and market selection, the state, private and foreign enterprises have different focuses and demonstrate different performances in terms of the business scope, scale and prices.

Table 1.1 Comparison of state, private and foreign express enterprises in business operations

	Scope of business	Scale of business	Prices
State	Cover intra-city, cross-region, international, Hong Kong, Macao and Taiwan markets	Business volume and operating income account for 19.9% and 20.2% respectively in overall industry. Mainly focus on cross-region delivery. Intra-city, cross-region, and international delivery account for 17.1%, 78.1% and 4.8% respectively.	Intra-city delivery is priced higher than private enterprises. Cross-region and international delivery are priced between foreign and private enterprises.
Private	Cover intra-city, cross-region, international, Hong Kong, Macao and Taiwan markets	Business volume and operating income account for 78.9% and 67.5% respectively in overall industry. Mainly focus on cross-region delivery. Intra-city, cross-region, and international delivery account for 27.1%, 71.5% and 1.4% respectively.	Intra-city delivery is priced lower than state enterprises. Both cross-region and international delivery are priced lower than the other two kinds of enterprises.
Foreign	Cross-region and international delivery	Business volume and operating income account for 1.2% and 12.3% respectively in overall industry. Mainly focus on international delivery. Cross-region, and international delivery account for 15.1% and 84.9% respectively.	Relatively higher price in cross-region and international delivery

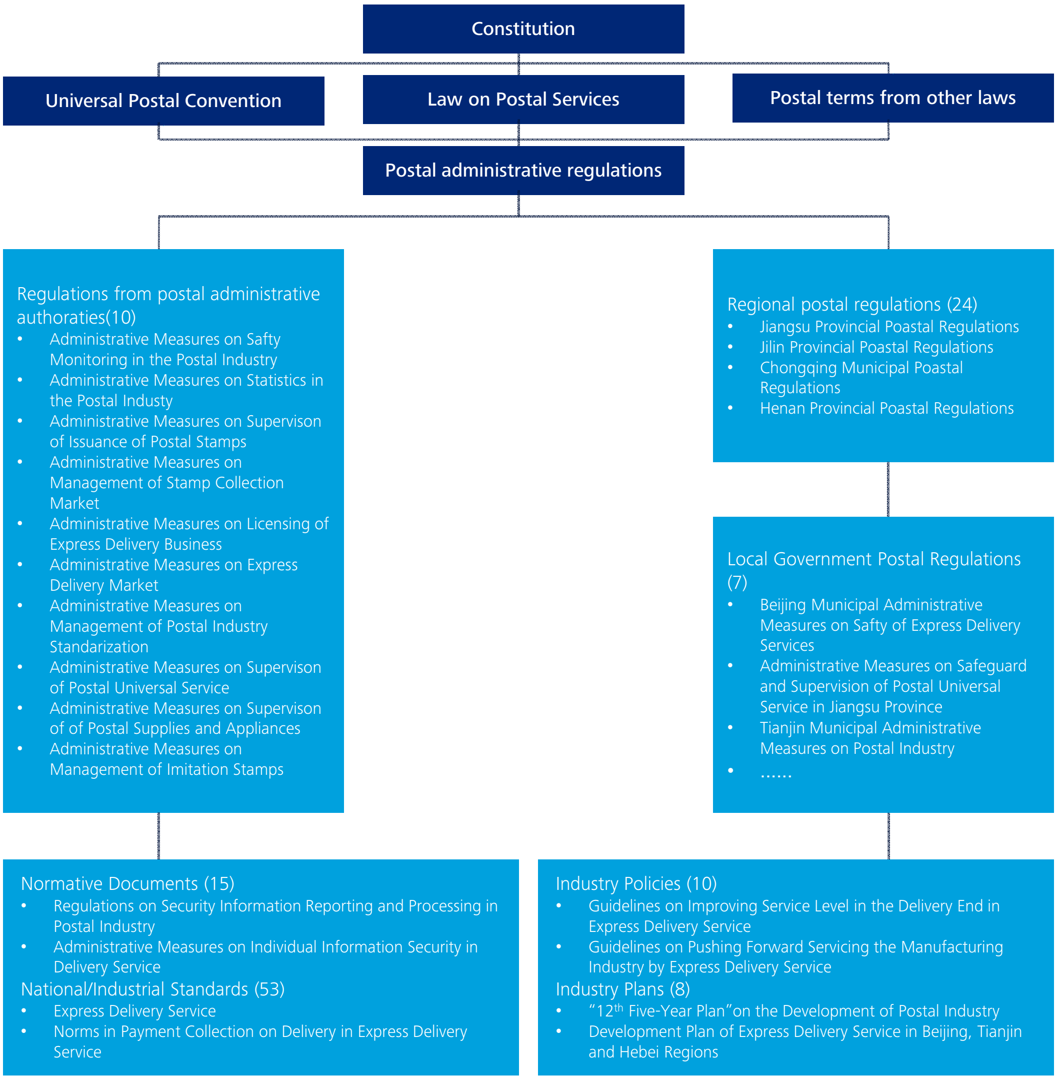
In summary, as a result of differences in the development history and background, the state, private and foreign enterprises have their own strengths and weaknesses in terms of policy, technology, talents, management and services, and have, by complementing each other, jointly created a market that is headed for the direction of sound and promising development.

1.2 Driving factors of Development of China’s Express Service Market

1.2.1 Policy factors

Policy factors are important drivers to optimize the environment for the development of express industry, provide directions for the industry development and stimulate enterprise development potential. In recent years, a series of policy measures have been introduced in the country aiming at supporting and regulating the development of express delivery market. Around the core of the Law of the People's Republic of China on Postal Services and based on the outlines in the “12th Five-Year Plan” of the state and that of the postal industry, some industry polies, plans and standards specifically designed for the main fields that impact the development of the industry such as tax reform, industry linkage, distribution and delivery have been issued, which have helped create and improved the system of policies, laws and regulations in the postal industry, including 1 law, 1 administrative regulation, 10 ministerial regulations, 24 regional regulations, 7 local government regulations, 15 normative documents, 15 national standards, 38 industrial standards, 10 industrial policies and 8 industry development plans.

Figure 1.12 The system of policies, laws and regulations in postal industry



Data source: chart based on information from official website of State Post Bureau

(1) Tax reform

The Notice on the Inclusion of Railway Transportation and Postal Service Industry in the Pilot Scheme to Switch from Collection of Business Tax to VAT issued jointly by Ministry of Finance and State Administration of Taxation in December of 2013 specifies that the tax rate of 11% is applied to and tax exemption is granted to general postal services, special postal services, postal financial services and postal express delivery and logistics services, a VAT tax rate of 6% is applied to the receipt, sorting, and delivery of parcels that are treated as "receiving and delivering service", and a VAT tax rate of 11% is applied to communication and transportation services in the express delivery service. The significances of such a policy include: First, drive industry upgrade and transformation. The switch from collection of business tax to VAT allows the deduction of the costs spent on purchasing manufacturing facilities and information system, therefore encouraging enterprises to invest more on new facilities and equipment to accelerate the upgrade. This helps enhance the standardization, information and automation of the industry, encourage refined division of work in the society and guide the enterprises to "go out to overseas market." Second, gradually lower industry tax burden. After the switch, the chain of deduction in express enterprises gets further extended. Consequently, more input VAT becomes deductible, resulting in continuous and more effective alleviation of tax burden from the enterprise. Third, regulate financial management system. After the switch, the settlement relationship between enterprises and suppliers is further streamlined, which forces the enterprises to regulate their internal accounting mechanism.

(2) Industry linkage

The development of correlative industries has offered powerful driving force to expand the size of express industry. The manufacturing industry has created critical demand for the development of the express industry when China's manufacturing industry witnessed a growth in added value by 10.5% in 2013 and the manufacturing PMI rebounded from 50.4% in January to 51% in December. The transportation industry has safeguarded the development of express industry. In 2013, China built 8,260 km of new highways, rebuilt 28,600 km of main national or provincial roads and 210,000 km of rural roads. The operation mileage of high-speed railway topped the world with 11,000 km, and domestic airlines stared to operate in 92 new international air routes and 252 new branch routes. E-commerce led the forces to drive the growth of express delivery service. The number of online shoppers in China arrived at 300 million and the online transaction amount accounted for 7.4% of total retail sales of consumer goods in 2013.

By introducing a number of supportive policies specifically for the synchronized development of express industry and its up and downstream industries in recent years, the administrative authorities of the industry has created an industry chain that closely links up express industry with other related industries such as agriculture, manufacturing, internet retailing, and civil aviation industry, etc.; broadening the concept of business and service offerings by the express enterprises and facilitating the virtuous cycle of winning situation among two or more industries. These polices include the Guidelines on Pushing Forward Severing the Manufacturing Industries by Express Delivery Service promulgated jointly by SPB and Ministry of Industry and Information Technology (MIIT), the Guidelines on Pushing Forward the Synchronized Development of Express Delivery Service and Internet Retailing promulgated jointly by SPB and Ministry of Commerce, the Guidelines on Pushing Forward the Synchronized Development of Express Delivery Service and Civil Aviation Industry promulgated jointly by SPB and Civil Aviation Administration of China (CAAC), and the Notice on Opinions of Pushing Forward the Development of Postal and Logistic Service in Rural Areas disseminated from the General Office of the State Council to Ministry of Transport and other Administrative Authorities, etc.

Source of data that analysis of "policy factors" is based on: Websites related to the State Post Bureau and Postal Market Supervision and Regulation Report in 2013.

1.2.2 Economic factors

(1) Economic growth

The regional per capita income is closely related to the development of express industry. China's per capita GDP reached USD6,629 in 2013 to arrive at the 86th place in a global ranking. By World Bank's standard, a country or region is defined as developed if its "per capita GDP exceeds USD10,000". Currently, seven provinces in China including Beijing, Tianjin, Shanghai, Zhejiang and Jiangsu, etc. have met the standard of developed regions. Consequently, these regions are seeing the explosive growth in express industry. China has set a target of "doubling its domestic GDP and per capital income of urban and rural residents by 2020", which along with other macroeconomic targets have created a great potential and promising outlook for the development of express industry.

Internet retailing has been a leading factor in driving the development of express industry. China's internet retail volume reached RMB1.84 trillion in 2013 and has surpassed the US to become the number one internet retail country in the world. Taobao.com posted a sale of RMB35 billion on November 11th alone. The announcement by the government to "push forward information consumption, implement the strategy of a broadband China … drive three-network integration and encourage innovative development of E-commerce" will further increase the internet penetration and therefore keep the internet retail business growing rapidly. According to statistics, 60%-70% of internet retail business relies on the support and safeguard of the express delivery services and a continuously booming internet retail industry will power a rapid growth in the express industry.

(2) Economic structure

First, the government has put intensive efforts in recent years in expediting industry restructuring and incenting service industry development. In 2013, the value added by China's service industry climbed to account for 46.1% of domestic GDP, surpassing the secondary industry for the first time in history. As an important component of the service industry in huge demand of information technology applications, express industry will undoubtedly benefit from macroeconomic restructuring and the mode of development driven by innovation. Second, the urbanization process will be accelerated. The government has set the target of solving the problem of "three 100 million people", i.e. transform the migrating rural residents of approximately 100 million into residents of cities and townships, rebuild and renovate the shanty towns or village in the city for about 100 million people, urbanize about 100 million people locally in the central and western regions, which signals the potential large increase of people served by express delivery service in the cities and the large increase of delivery needs between people who settle in the cities and their relatives in the country. Third, the government will lean more of its support toward the development of central and western regions. It will result in heavier investment on infrastructure construction such as transportation, to intensify the momentum in the development of city agglomeration and townships in the central and western regions. As the economic growth and enhancement of urbanization level in the central and western regions are expected to boost the consumption ability in the central and western regions, the express enterprises are likely to put more weight on these regions when making network planning and outlet deployment.

(3) Economic system

The third plenary session of the 18th Central Committee of the CCP has ascertained the principle of "strictly focusing on making market play the decisive role in the resource allocation" and has put forward definitely the promises of reducing the number of matters that require administrative approvals, delegating administrative approval powers to local level governments, implementing the management mode on negative list and meanwhile has put stop to the enterprise annual inspection system, which can significantly alleviate the burden on and releasing the potential of development of express enterprises.

In addition, the government has intensified the distribution system reform by eliminating barriers of all kinds that hinder the establishment of an integrated national market, reducing logistics costs, promoting the development of logistics, distribution and delivery, express delivery and internet shopping business, and fully unleashing the great consumption potential hidden in over one billion people.

Source of data that analysis of "economic factors" is based on: Data and reports from related ministries and commissions and their websites.

1.2.3 Social factors

The rising e-commerce and internet shopping in recent years have changed the social retail service industry greatly, which have, to a large extent, shaped the evolution and development in the entire logistic industry and played a key role especially in triggering the “explosive” growth in the express industry.

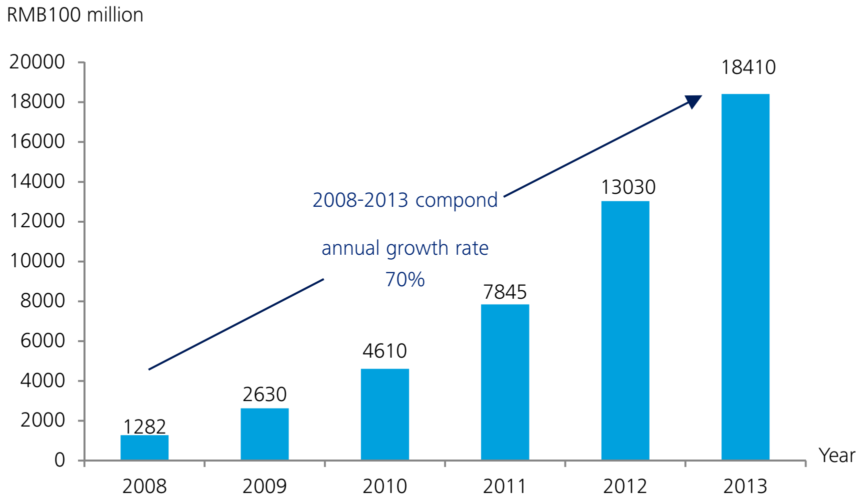
(1) Changes in consumer behaviors

Data from Wind suggest that China’s internet shopping volume reached RMB1.84 trillion in 2013, with at a compound annual growth rate of 70% in the past five years and is expected to remain at the level of over 30%.

The construction of internet network and the applications on mobile platforms have been developed to a higher level, which has laid a preliminary foundation for internet shopping. In 2013, China’s netizen population accounted for 89.6% of total population, and mobile terminal penetration rate reached 98.3%, 82% of which are smart phones. Aided by the improved infrastructure, the number of China’s online shoppers dramatically increased from 70 million in 2008 to 300 million in 2013, and internet shopping penetration rate climbed from 24.9% to 47.4%.

The data have reflected the changes in consumer behaviors in China. The popularity of internet shopping has put a much higher demand for express delivery service, resulting in a sharp expansion of express delivery service that has fueled the growth of many express enterprises.

Figure 1.13 Size of Internet Shopping Market in China (RMB100 million)



Data source: Wind, Deloitte Research

In addition, China’s internet shopping customers are showing the trend of shopping more frequently and shifting to high-income population, which provides a great opportunity for the growth of express industry and also puts up a higher demand to the enterprises in this industry. According to the survey by iResearch, up to 54% of internet shoppers made at least 10 purchases using internet shopping in 2012. In the same year, nearly 20% of Chinese internet shopping customers have a monthly income of at least RMB5,000, almost doubling that rate in 2008. Such a structural change has translated into a more stringent requirement from the consumers on the quality of service and speed and safety of delivery, which thus has pushed the enterprises to improve operational management and enhance productivity, and finally has driven the development in both quantity and quality in express industry in China.

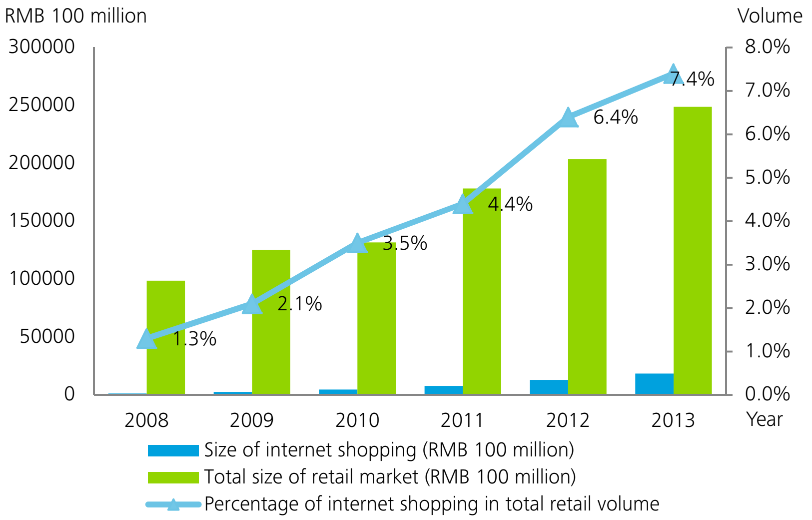
(2) Changes in logistic modes

The percentage of China's online retail volume in total retail business increased from 1.3% in 2008 to 7.4% in 2013. The business moved from offline physical stores to online stores must be supported by express delivery service to reach consumers.

From the perspective of consumer demand, the survey by China Internet Information Center reveals that 65% of customers have reduced the frequency of shopping at physical stores through internet shopping, while 26.4% of customers choose internet shopping for convenience, efficiency and the commodities to be expressly delivered to the door. It shows that the retail business is undergoing a shift from previous batch logistics transportation to current express delivery for individual consumers.

From the perspective of supplies, the conventional offline physical stores have been heavily hit by E-commerce. Many retail stores in the industries including garments, cosmetics, books, music and video along with department stores and electrical appliances chain stores are seeing their profitability dwindle dramatically. In response to the changes in the marketplace, conventional retail giants such as Guomei and Suning have opened their own E-commerce stores or established their own logistics platforms. Meanwhile, Jingdong.com, No.1 Store and Suning have applied for license for operating express delivery services successively, indicating the importance of express delivery to China's retail industry. The changes in logistics mode brought about by the emergence of internet retail business have resulted in a much faster growth in express industry than logistics industry as a whole, making it a new spotlight in the field of communication and transportation.

Figure 1.14 Size of internet shopping and its percentage in total retail business in China



Data source: Wind, Deloitte Research

Figure 1.15 Annual growth rate of express industry and logistics industry in China

Source of data that analysis of "social factors" is based on: SPB website, Wind and Deloitte Research

1.2.4 Technical factors

(1) Current technical status of domestic express enterprises

Chinese express enterprises have accelerated their pace in development into an informational, integrated and automated business. Technologies such as automatic sorting, wireless transmission, radio frequency technology, and video monitoring have enhanced the service efficiency of these enterprises; the widespread application of third-party payment and mobile payment has facilitated the value-added business such as collection on delivery and helped avoid capital risks; hand-held terminals and wireless input equipment are becoming increasingly popular, and technical transformation and upgrade of physical goods distribution network are moving along as planned; GPS technology has enhanced the capability of positioning and tracking vehicles and therefore enhanced the ability of delivery route planning and information query, etc., significantly improved operational efficiency and accuracy of express enterprises' network and fleet. In 2013, China's leading express enterprises made an investment of over RMB10 billion in infrastructure including the construction of and expansion to several assembly lines, purchase of automatic sorting and security checking equipment, enhancement of ability of air transportation construction to increase the number of cargo planes specifically used for express delivery services to 65 and to increase new air routes by 30%. EMS's hub in Nanjing was put in smooth operation. Shunfeng established automated sorting lines in Beijing and other distribution centers and put them in operation successfully. It also carried out testing of unmanned machines in Dongguan of Guangdong Province.

(2) Technology applications in international express enterprises

Compared to the technologies adopted by their Chinese counterparts, international express enterprises tend to apply technologies that are driven more by customer demands. Dilivery Information Acquisition Device's (DIAD) imaging device enables a fast upload of information on the packages to be delivered onto the internet to facilitate tracking. Once the recipient accepts and signs on the electronic writing pad, all the information will be uploaded instantly. Meanwhile, the shipper of the package can check the information online and see the signature of the recipient as well. The mobile terminal application enables the customers to see the status of their shipped goods by searching and tracking logistics information on mobile terminal devices including the specific location of the transporting vehicle, the name, quantity and weight of the goods shipped, which has increased the monitoring transparency and convenience. These applications are under constant upgrade to meet the requirement in the marketplace. They not only work well on the latest Blackberry and Android smart phones but also work well on the serial mobile products by Apple. Meanwhile, the design is continuously improved so that it can be integrated with third-party software. Customized delivery system enables the customers to choose the time and location of sending and receiving the goods to meet their specific needs. The system will then, by way of dynamic optimized computation and other computer technologies, analyze the requests and make an integrated decision on delivery time and routes. The integrated management system is a one-stop logistics solution that enables the customers to process the important commodities they have bought in all major E-commerce platforms such as eBay, Amazon, Etsy, and Google Checkout on a single webpage to enhance customers' logistics management efficiency. Sensor tracking device is used in the delivery of hi-tech parts, emergency medical aid equipment, artworks, classified documents, jewelries and other precious and important articles. It enables the customers to track the location, temperature, humidity etc. of the articles being delivered at any time. It can also monitor the degree of impact on the articles and send out warning signals and upon the request of the customers, check the articles at the nearest delivery post when the impact is beyond the tolerable range pre-configured by the customers.

Source of data that analysis of "technical factors" is based on: Relevant SPB publications and reports, Deloitte Research and relevant websites.

Chapter Two Overview of Capital Market in China’ s Express Sector

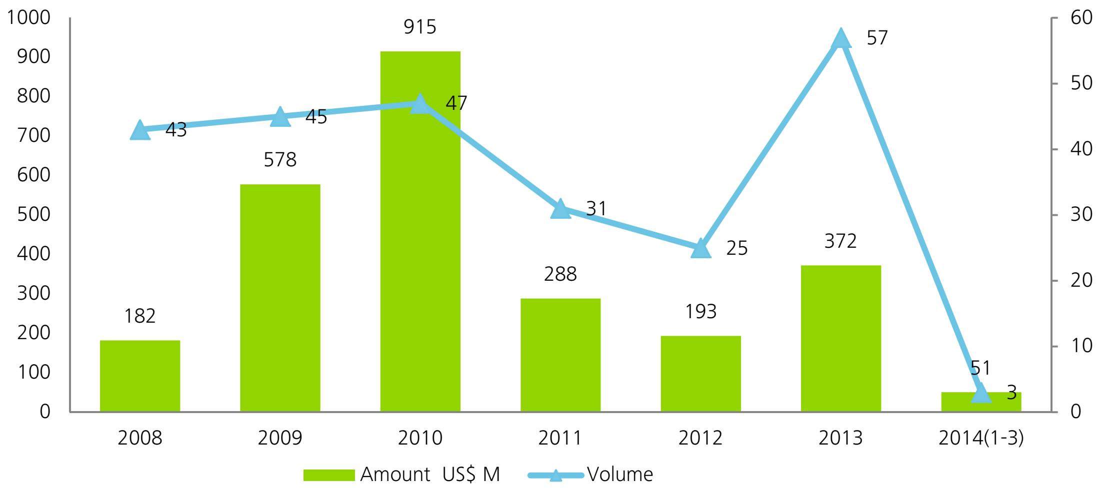
2.1 M&A market analysis

2.1.1 Evolution of industry M&A

Compared with express sector, M&As in logistics industry went through downs and ups during the past six years, among which, the volume of M&As in 2012 hit record low.

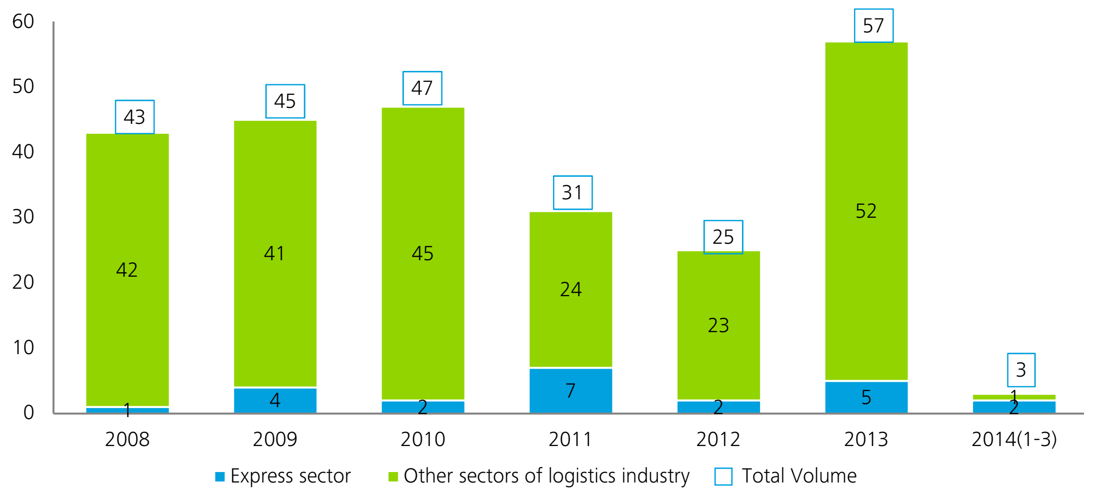
In terms of M&A trend, express sector is roughly consistent with logistic industry – no significant increase in the amount and volume before 2012. However, in 2014, two M&A cases took place in the first three months and the transaction amount (USD50 million) has exceeded the average amount of the past six years (USD37 million). Our research indicates that M&A integration period is coming for the express sector in China.

Figure 2.1 M&A amount and volume of logistics industry per year



Source: CVSource, Deloitte Research

Figure 2.2 Comparison of M&A in express sector and other sectors of logistics industry per volume

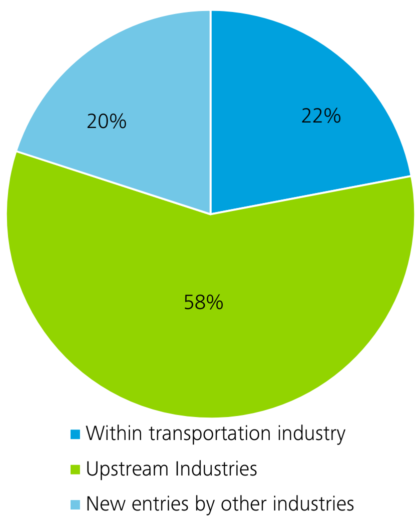


Source: CVSource, Deloitte Research

2.1.2 Latest M&A trends of the industry

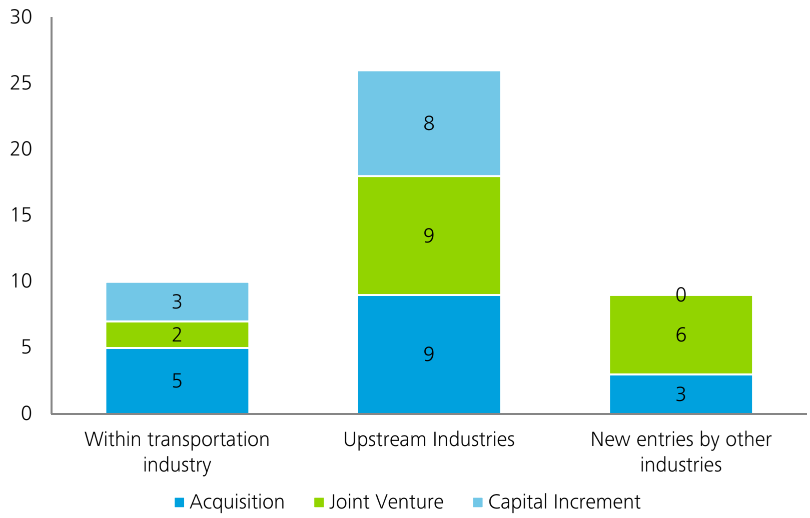
Since the new wave of M&As in 2013, 47 transactions in transportation industry are completed or in progress, with one transaction failed and another 12 companies proposing to transfer their stock equity. Although most M&As involving relatively large transaction amount were within the transportation industry for many years, different M&A trends have emerged over the past year. Among 45 M&As which have been completed or in progress from 2013 to date, 26 are from the upstream industries, 10 are internal integrations within the transportation industry, and 9 are new entries of other industries. It can be seen that M&A cases within transportation industry only account for 22% of the total.

Figure 2.3 Distribution of M&A buyers in logistics industry over the past year (2013.1-2014.3)



Source: CVSource, Deloitte Research

Figure 2.4 The types of M&A transactions in logistics industry over the past year (2013.1-2014.3)



Source: CVSource, Deloitte Research

From the perspectives of acquisition, joint venture and capital increment, transportation industry took acquisition as its major M&A form. The acquirers of all these acquisitions controlled the stocks of the acquired companies, indicating that the acquirers intended to control the business of the acquired companies and to integrate and utilize the resources of the acquired so as to strengthen their own operating capabilities or achieve horizontal expansion by obtaining new business.

As a whole, China's logistics and express industry is very promising and attracts increasingly more investors and businesses outside the transportation industry to enter the logistics and express industry. This will lead to fiercer industry competition and more M&As in future.

2.1.3 Case study on industry M&As

Table 2.1 A glance of Top 10 M&As in terms of amount in logistics and express industry from 2008 to March 2014

Ranking	Target company	Acquirer	Main business of the target company	The year of transaction	Transaction amount USD M	Trading equity
1	CITIC Logistics	Sino-Tech International Limited	Logistics	2010	237	90.00%
2	Huai Kuang Railway Transportation	Wuhu Port Storage & Transportation	Logistics	2009	216	100.00%
3	China Cargo Airlines	China Eastern Airlines	Logistics	2010	170	34.85%
4	Haier Logistics	Haier Group	Logistics	2010	113	100.00%
5	Shenhua Materials & Trading	Shenhua Group	Logistics	2010	78	100.00%
6	Huayun Trading & Property	Shanghai Xingkai Zhongcheng	Logistics	2011	62	65.00%
7	SF Airlines	SF Express	Express	2011	59	80.00%
8	Huai Kuang Modern Logistics	Wuhu Port Storage & Transportation	Logistics	2009	59	100.00%
9	China Cargo Airlines	COSCO	Logistics	2010	57	11.62%
10	ST Express	SEHO Investment	Express	2014	49	N/A

Source: CVSource, Deloitte Research

On 8 May 2013, Zeny Supply Chain, a subsidiary of Lenovo Holdings, signed a formal cooperation agreement with Any Time, and established Zeny Express on 27 June. In the following three months, Legend expanded fast in express sector - acquired Suzhou Haosheng Logistics in July, Beijing Feikangda in August and Shandong Direct Express in September. Thus, by means of integration within the industry, Zeny Express quickly expanded its network across China, covering Southern China, Eastern China, Northern China and Northeastern China

Those four acquired companies took express as their main business and had a certain market share in their respective regions. Any Time was one of the earliest private express companies in China and mainly operated its business in Southern China. Suzhou Haosheng Logistics was quite familiar with express for online retailing and specialized in online cargo transportation lines in Jiangsu, Zhejiang and Shanghai as well as Taobao's special lines in Beijing, Shanghai and Guangzhou. The other two logistics companies, Feikangda and Direct Express, from Beijing and Shandong respectively, basically covered Northern and Northeastern China.

There are two channels for the external industrial capital to enter into express sector - to set up a new express company or to acquire an established express company. As the pattern of express sector is basically settled in China, new entrants who set up new express companies may have to make huge investments at the early stage of creation. Therefore, to acquire an established company within the industry is potentially a choice to consider. Meanwhile, as the valuations of major express companies such as SF Express, STO Express, YT Express, ZTO Express, HT Express and YUNDA have reached to tens of billions Renminbi, there will be limited chance to gain controlling stake without a huge amount of capital. Through M&As, Lenovo proposed a fast layout in the industry by leveraging its powerful capital. Therefore, Lenovo merged several local smaller express companies to control their stakes, and then integrate these companies with its management experience and group resources, enabling the new company to gain a foothold in the industry as soon as possible.

The M&As completed by Lenovo is very likely to represent an upcoming trend of industrial capital entering into the express sector. The major threshold for express sector lies in network layout. The industrial capital can first integrate the resources and advantages of regional smaller express companies on a national unified platform, so as to set up express companies with coverage across the nation. By this way, the external investors can break the thresholds for entry and complete the layout within a short period by leveraging their advantages in capital, thereby benefiting from the high growth of express sector.

We can get a conclusion from the above example that M&A and restructuring are important ways for enterprises to strengthen their competitiveness. Brands, markets, resources and technologies are internal incentives for M&A. Successful M&A and restructuring helps enterprises achieve low-cost expansion and leap-frog development; at the same time, they are also significant in strategic transformation and to developing new competitive advantages.

However, it should be noted that M&A is a complicated process involving economic, financial, legal, commercial, management and resource integration. A thorough understanding of the entire M&A cycle (from strategy formulation to M&A planning, facilitation, decision making, implementation and post-merger integration) is critical for Chinese express enterprises. In regard to operations, enterprises should consider the effectiveness of M&A activity in enhancing competitiveness, and should also consider how to conduct effective post-merger integration, based on their own development strategies. Enterprises need to do extensive research in M&A cases and accumulate practical experience to be well prepared for M&A opportunities and increase the success rate of M&A deals to realize competitiveness enhancement.

2.2 A glance of PE/VC investment

2.2.1 Status quo of PE/VC investment

Due to the limited cases of PE/VC financing, the percentage of financial companies among express sector is volatile, but it still can be seen that the percentage increased obviously in the past three years, which indicates that express sector is becoming one of the areas attracting more attention from PE/VC.

Figure 2.5 PE/VC financing cases of logistics industry per year

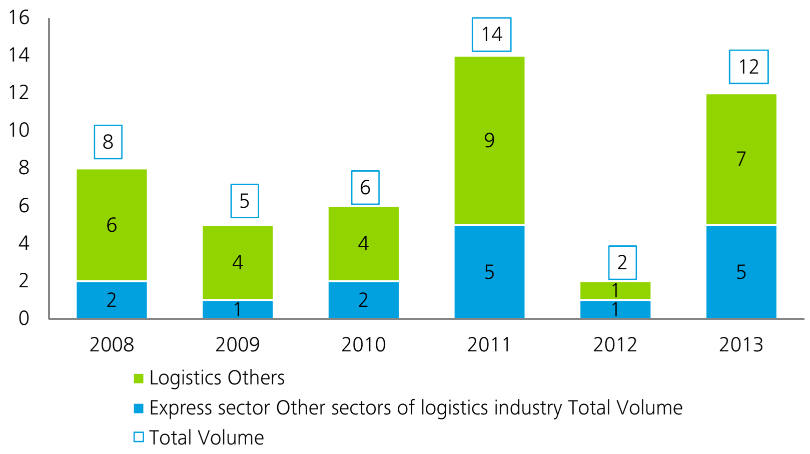
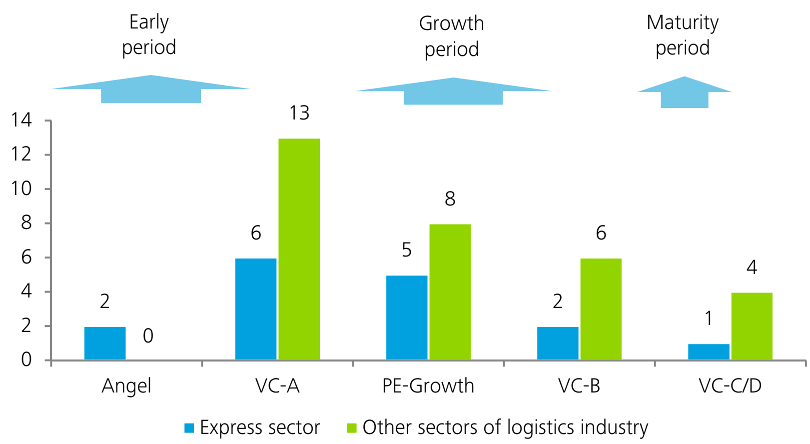


Figure 2.6 Comparison of the nature of PE/VC financing in logistics industry



Source: CVSource, Deloitte Research

Among 47 cases in total, 25 have disclosed financing amount - 8 from express sector with average financing amount of USD161 million, 17 from logistics industry with average financing amount of USD13 million. The average financing amount of express companies is much higher than that of logistics companies and thus more favored by the capital market.

In view of the nature of financing, the early financing included Angel Financing (two times) and VC-Series A (19 times); the growth financing included PE (13 times) and VC-Series B (8 times); the maturity financing included VC-Series C/D (5 times). It can be seen that the express companies are more easily to receive capital at early stage. Increasingly more express companies are able to make use of external capital for network construction and rapid expansion.

2.2.2 Case study of PE/VC investment

Table 2.2 A glance of PE/VC financing in express sector from 2008 to 2013

	Target company	Investors	The year of financing	Financing amount	The nature of financing
1	SF Express	ORIZA Holdings / China Merchants Group / CITIC Capital /Jade Capital	2013	1,303	PE-Growth
2	4PX Express	IDG Capital	2013	50	VC-Series C
3	Quanfeng Express	Leading Capital / Phoenix Capital/ Peng Kang Capital	2013	33	PE-Growth
4	ZTO Express	Sequoia China / Goldstone Investment	2013	30	PE-Growth
5	Quanfeng Express	Greenwoods Asset	2013	N/A	PE-Growth
6	D-Home	CDF-Capital	2012	N/A	VC-Series A
7	4PX Express	Shenzhen Capital Group	2011	N/A	VC-Series B
8	Best Logistics	GSI/ Walden International	2011	N/A	VC-Series B
9	Deppon Logistics	Eastern Bell Venture Capital	2011	N/A	VC-Series A
10	Yunda	Prime United Capital / Fosun Capital	2011	N/A	VC-Series A
11	Chukou 1	KPCB	2011	4	VC-Series A
12	Best Logistics	Walden International/ CDH Investments	2010	15	VC-Series A
13	Deppon Logistics	Sinovo	2010	15	PE-Growth
14	Best Logistics	N/A	2009	N/A	Angel
15	4PX Express	Shenzhen Capital Group	2008	4	VC-Series A
16	Chukou 1	N/A	2008	N/A	Angel

Source: CVSource, Deloitte Research

Among PE/VC financing cases of express sector in recent years, the most notable one is the first external financing of SF Express since its inception 20 years ago. On 20 August 2013, ORIZA Holdings, China Merchants Group, CITIC Capital and Jade Capital co-invested in about 25% shares of SF Express, with the investment amount reaching to RMB8 billion. As for this financing, SF’s overall valuation amounted to about RMB32.5 billion, with PE ratio of 25 times, which even exceeded the average PE ratio of FedEx (20 times) and of UPS (24 times) since they were listed on New York Stock Exchange. This data show extremely high confidence from capital market for SF's future development.

We analyzed the investment objectives of four investors and found that ORIZA Holdings manages funds of over RMB22 billion. With its powerful capital, this investment company is optimistic about the surging growth of express sector in recent years and SF's high profit margin, so it may not be eager for exit. Jade Capital was the financing advisor of SF and has smaller proportion of shares, so it is flexible to exit. China Merchants Group and CITIC Capital are more geared to long-term industry layout, and are typical industrial investors. China Merchants Group is a logistics giant in China, but had not yet entered the express sector. By acquiring SF's stocks, it could gain market share in express sector. In its official statement, China Merchants Group said that this acquisition was in line with its domestic demand strategy with the regeneration of supply chain as a breakthrough point. Meanwhile, CITIC Group is also switching their attention from finance to other service industry. During "12th Five-Year Plan" period, CITIC Group regards logistics as an area of priority. Previously it acquired Tian Di Hua Yu, the less-than-carload logistics giant, while this acquisition of SF's stocks is an important step to develop high-end express sector.

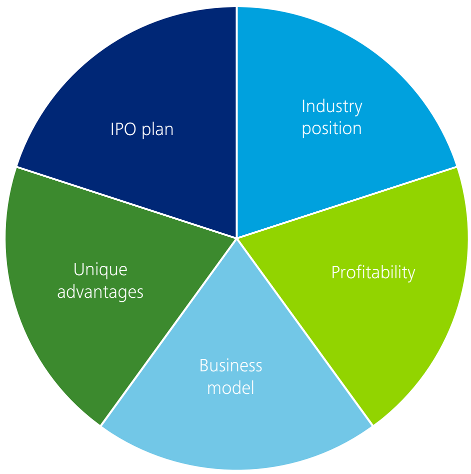
Different from traditional PE/VC, SF said that the contract terms of this financing stipulate that the investors shall not change SF's existing strategic direction and brand dominance and compel SF to go public. This indicates that this financing may not be an ordinary financial investment. SF made a statement that this financing will be used in asset-intensive investment, including land purchase, transit field and aviation hub expansion, the purchase and renovation of cargo aircrafts, and the enhancement of automated systems and automation equipment application.

As for SF's main objectives of introducing strategic investment, 1) after getting bigger, SF needs to change its single shareholder structure, introduce external investors and respond to the market change more quickly; 2) SF can leverage the strengths of these four shareholders to develop business and obtain help in land purchase, logistics transit field building, and the expansion of supply chains at home and abroad; 3) the investors have powerful strength in resources. These four investors have good background of state-backed capital. ORIZA Holdings worked with China Development Bank to establish national VC fund of funds, the first one in China. The complementary authority of CITIC Group is the Ministry of Finance. China Merchant Group is directly controlled by State-owned Assets Supervision and Administration Commission of the State Council. The founder and legal representative of Jade Capital is the former deputy director of Department of Foreign Investment Administration of Ministry of Commerce.

Due to large transaction amount and the prominent positions of the parties involved, this financing has significant impact on the trajectory of financing in express sector. Given the increasingly competitive industry background, the companies in express sector need the help from external capital to become asset-intensive companies and comprehensive logistics suppliers. Firstly, express companies need experienced financial investors to improve their unified financial statements, risk control, compliance management and modern corporate system. Secondly, according to international experience, logistics information technology has crucial impact on productivity and future development of the industry. Information will be the core for future development. Therefore, to introduce external capital to enhance software system and the application of automation equipment will be another requirement of financing for express companies. In addition, direct-sales reform is an imperative for other express companies adopting franchise model. External financing can mitigate tremendous capital pressure brought by direct-operation integration faced by express companies, which will be favorable for better development of the companies.

2.2.3 Key points of PE/VC investment

Figure 2.7 Key points of PS/VC investment



Source: Deloitte Research

Based on the successful cases of financing of SF and other major companies in capital market, PE/VC investment focuses on the big picture of the industry when investing in express sector. With the purpose of high return, capital market has five decision-making points for the strategic investment of express companies.

(1) Industry position

Due to the high threshold of entry into express sector, the first-mover advantage is more obvious. The express companies that established integrated network are able to capture market share and gain dominant position in the industry. In the past 6 years, 9 express companies completed 16 PE/VC financing cases in total. Chukou 1 and 4PX Express (with specialization in international express), plus the other 6 express companies, Best Logistics, Deppon Logistics, Yunda, Quanfeng Express, ZTO Express and SF Express, come out on top among the industry.

(2) Profitability

In order to win high returns, financial investors require the companies to have a high growth potential as well as strong and sustainable profitability. The profitability is measured in terms of operating income, net profit, profit margin and etc. At present, China's express sector faces fierce competition. As the costs are rising while the delivery fees remain, the profit margin of private express companies is relatively low on average. Therefore, the express companies must try to increase profit margin and improve profitability so as to attract PE/VC investment.

(3) Business model

For the development of express companies, business model is particularly important. In the globe, four express giants adopt direct-sales model. The franchise model allows for rapid expansion with limited capital. Under the franchise model, franchisees are often independent legal person. This is challenging for their integration and intensive development. Franchise model also have the potential to lead to unconsolidated financial statements and require great coordination to manage operational risk and service quality, potentially adversely affecting corporate development and even IPO. Therefore, PE/VC capital prefers express companies with high direct-sales model . Meanwhile, those companies with clear equity structure and simple debtor-creditor relationship are easier for integration, attracting more attention from the capital market.

(4) Unique advantages

At present, China's express sector is still decentralized in the early stage of integration. There are over 8000 express companies in China. To stand out in the fierce competition and get the favor of capital market, the companies need to distinguish themselves from others. For instance, Chukou 1 and 4PX Express have been given two and three financing respectively just because they are deep rooted in international express market with unique advantages. This indicates that while express companies are seeking specialization and segmentation, the companies may gain external financing if they hold dominant position and larger market share in certain segmented markets.

(5) IPO plan

For PE/VC investors, exit is the final step to complete an investment, and also an important part to realize their stock equity and get actual profits. Therefore, before deciding to acquire equity, the investors require a clear exit path of the invested project. There are two common ways for exit: 1) to sell the stock equity to industrial investors; or (2) exit after the company goes public. At present, no express company successfully goes public in China, but some will be listed in future. Under this context, the investors prefer the companies with IPO plans. However, as IPO review in China is still very stringent currently, it is a long way to go public, especially for the express sector that is dominated by franchising model. Therefore, the express companies must make IPO plans as early as possible, transform various areas and develop in compliance with standards of the listed companies, so as to obtain PE/VC financing.

2.2.4 The analysis of PE/VC financing risks

In recent years, when express companies and PE/VC investors sign investment contracts, they are more inclined to use a clause of valuation adjustment mechanism (VAM), if the investors and parties receiving capital are not certain about the future. This kind of agreement often requires the companies to make a commitment of their performance, namely the companies invested promise to achieve financial performance in terms of net profit or operating income within an agreed period. If they fail, they shall make compensation or transfer stock equity to the investors. In general, transfer of stock equity is commonly accepted.

As financial performance is an important basis of valuation, in order to get a higher valuation, the companies need outstanding performance as guarantee. Although VAM is helpful to raise PE ratio of express companies, it also increases their operational risks. First, there is a risk of losing right of control over the companies if the management cannot achieve performance standards. If the management over estimates future performance, or does not fully considers the negative effect brought about by internal and external uncontrollable factors, the management may sign VAM of extremely high risks, thereby losing right of control over the companies. Next, there is a risk of affecting operating decisions of the companies by too high performance commitment. Due to the pressure caused by performance commitment, the management may be compelled to take some short-sighted actions and non-rational expansion in order to achieve the performance targets, eventually affecting the healthy development of the companies.

While accepting this kind of financing agreement, express companies are suggested to make a reasonable analysis on the future development trend of express sector and their own development capabilities, and have a detailed understanding of the terms of VAM, in order to avoid excessive risks. They may ask to add in the agreements soft clauses that do not involve indicators of financial performance, e.g. the number of sites, the number of delivered items, the efficiency and accuracy of delivery, and corporate system construction, so as to reduce the risks arising from VAM and achieve balanced and controllable risks. In addition, a clause of loss limit can also be added to control the risks within a certain range, namely, the agreement can be terminated when the loss is excessive.

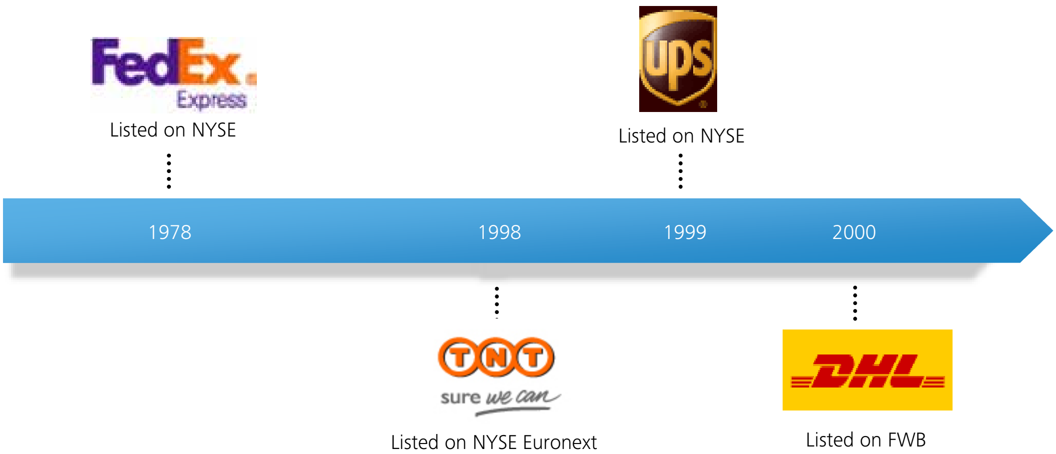
2.3 IPO market analysis

2.3.1 The current situation of IPO market

Maybe Chinese express companies still have a long way to go public. Up to date, the IPO market of express sector in China is not very active, possibly caused by stock market downturn and IPO-related barriers in recent years. So far, no domestic express company was listed successfully. EMS in China has passed the review of Issuance Examination Committee of China Securities Regulatory Commission in July 2013. It was expected to go public, but it withdrew IPO reporting materials in December 2013. The reasons included high pressure of profitability against the decline of performance and their anticipated significant adjustments of organizational structure. Some Chinese private express companies have prepared IPO plans and transform their operations step by step, but they haven't submitted their IPO applications to Issuance Examination Committee of China Securities Regulatory Commission.

The four international express giants went public relatively late. UPS was listed in New York in 1999, DHL in Germany in 2000, TNT in Amsterdam in 1998, while only FedEx was listed earlier - on New York Stock Exchange in 1978.

Figure 2.8 The listing timeline of the four international express giants



Source: Annual report of the companies, Deloitte Research

In 1971, FedEx created overnight express service and devoted completely to air transportation market. FedEx needed a large amount of capital to purchase cargo aircrafts and its risk investors needed exit, so FedEx chose IPO after 7 years of inception. The other three companies were listed in the late twentieth century. There are three common points. Firstly, the sector was in a period of maturity. In European countries, the express sector experienced rapid expansion in 1980s. In late 1990s, the growth rate of the entire sector slowed down significantly, marking a period of maturity. Secondly, the express companies entered a period of stable stage. By the end of last century, the three giants have accomplished industry integration in their countries respectively - the market share and net profit margin was stable, which remained at 4%-5% during three years before IPO. Thirdly, their investments in fixed assets and information required a huge amount of capital. After IPO, three giants utilized their fund raised in a series of capital-intensive projects, including aircraft purchase and transit center and IT center building.

2.3.2 Risks in IPO financing

Chinese express companies encounter the following major risks in the process of IPO financing:

(1) The risk in compliance

After IPO, the companies need to meet higher compliance standards in terms of operation, which may increase the cost of competition and adversely affect future business expansion or consolidation. Meanwhile, the listed firms are required by China Securities Regulatory Commission to regularly report their operations, financial indicators, strategic plans and other information. In addition, the listed firms shall timely disclose the changes of executives or abnormal fluctuations in stock, which may not be conducive to protecting their commercial secrets.

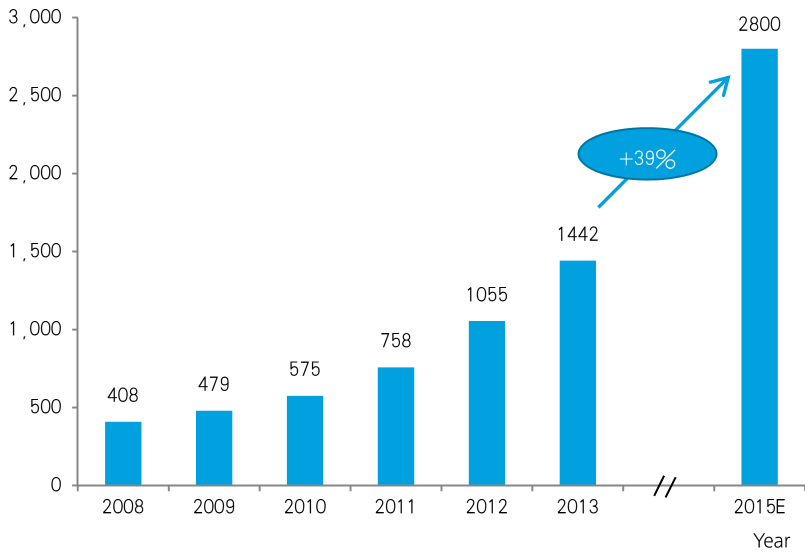
(2) The risk in profitability

At present, China's express sector is still in the early stage without deep integration. The price war and rising operating costs of the sector affect the profitability of express companies. The companies may not be able to obtain a higher offer pricing if they go public at such a stage. Moreover, after IPO, the companies also face continuous pressure of profitability. Once the investors believe that sustained profitability of the companies is low, they may sell stocks in the market, which would reduce stock price and capital, exert negative influence on market presence and refinancing of those companies, and increase the likelihood of the companies to be acquired.

Chapter Three Industry Outlook

Deloitte forecasts that China's express sector will continue to grow rapidly driven by macroeconomic growth, development in the central and western regions and a sustained growth in E-commerce. By 2015, it will become an industry of RMB280 billion in size with an average annual compound growth rate of 39.4%. (Figure 3.1)

Figure3.1 Forecast of size of China's express sector



Date source: SPB, Deloitte Research

3.1 Forecast in macro-environment

(1) Overall industry environment keeps improving

Since the amendment and implementation of the Law of the People's Republic of China on Postal Services in 2009, the legal positioning of express enterprises is further clarified, and a unified and open express service market with orderly competition has been gradually established. The ensuing Administrative Measures on Express Service Market, Administrative Measures on Licensing of Express Service Business and the legislation of Regulations on the Management of Express Service Market that is being promoted have played important roles in pushing forward the healthy development of the express industry, enlarging and empowering express service entities and protecting the legal rights and interests of consumers. The support from the government by introducing synchronized policies across ministries, commissions and industries in promoting information consumption, E-commerce, planning of logistics parks and improving distribution and delivery service in cities is, without a doubt, going to help express enterprises break the bottleneck in development, alleviate operational burdens and enhance service quality.

(2) Synergetic development of E-commerce and express service

In order to promote the synergetic development in E-commerce and express service industry, the cross-department cooperation will be accelerated, and integrated solutions that concern multiple departments such as the Opinions on the Healthy and Fast Development in E-commerce Business will be launched successively. For the purpose of pushing forward the development in E-commerce to a higher level and coordination among departments including E-commerce, postal service, logistics, etc., the European Union, as an example, is constructing a legal system that safeguards the synergetic development in E-commerce and sending and delivery services. The major laws and systems contained in this framework include: (1) Law on Protection of the Rights and Interests of Consumers; (2) Law of EU on Joint Sales of Goods; (3) Action Plan on EU E-Commerce; (4) Roadmap on Common-ground EU Package Delivery; (5) Rules on Data Protection in EU; (6) Rules on Resolution of Online Disputes in EU; (7) Identification of Online Honesty in EU, and so forth

3.2 Forecast in industry development

(1) Accelerated pace toward rural areas, western regions and overseas market

Under the circumstances of expanding E-commerce pilot programs by the country, express enterprises will be more incented to explore the overseas markets of international express delivery, which will increase the value added to the international express delivery services and enhance brand effect. In addition, demand for sending and delivery services from and to the rural areas and western regions will shoot up with the increasing popularity of internet and E-commerce in these places. These demands will become the blue ocean for the express industry at the moment. Meanwhile, the policies that have been introduced successively to improve urban distribution and last-leg delivery services have, to a large extent, ensured that the network layout and infrastructure construction be accelerated in rural areas and western regions.

(2) M&A and integration will become important drivers in the development of the industry

Currently, there are nearly 8,000 express enterprises in China. Small and medium enterprises that are under the pressure of growing costs and decreasing profits are likely to be eliminated from the competition if they do not receive new capital injection to fund rapid expansion. The industry will see more frequent small-amount M&A deals in the future and the entry by the upstream manufacturers into the express industry will speed up integration and drive up the degree of industry concentration, making integration by M&A an important impetus that pushes the industry to move forward.

(3) Enterprises are employing a strategy of building up their own airline.

Currently, all the four global giants in express business have their own airlines. FedEx owns and leases 634 airplanes and established 10 air distribution hubs in the world; UPS owns and operates 237 leased airplanes and rents 388 airplanes of other types; DHL also has four airlines and a large air fleet of 420 airplanes.

The development of air express delivery service has gone through three stages: First, rent freight space; second, charter airplanes; third, build up the airline of their own. Most of the privately-owned express enterprises in China are now in the stage of renting freight space, which are not competitive in terms of timely delivery. In the future, the Chinese express enterprises will gradually switch from renting freight space and chartering airplanes to establishing their own airlines in order to increase air transportation capacity to face the competition in the high-end and international air express delivery services.

3.3 Forecast in enterprise development

(1) Traditional and self-operated E-commerce express enterprises will be developed through competition and cooperation

As E-commerce giants such as Alibaba, Jingdong and Suning enter the industry by establishing their own express companies, traditional express enterprises are faced with more fierce competition. Once the E-commerce enterprises take advantage of the big data and their business to operate express delivery on their own, the privately-owned express enterprises that highly depend on E-commerce business may be forced into the last-leg delivery. To avoid such a situation and enhance comprehensive competitiveness, the express enterprises have begun to enter the E-commerce business so that they can expand and increase transaction volume. In the future, it is likely for express enterprises and E-commerce enterprises to develop their business by stepping into each other’s territory.

(2) Diversified development in products and services

The Chinese express enterprises need to further develop diversified and multi-level service product portfolio in the future to meet the needs of different customers and maximize the international market share. The four global giants in this industry have expanded their business to cover the areas from logistics, E-commerce, finance, insurance to consultation after years of development. In addition to the basic services such as E-commerce and supply chain management, UPS has also established the UPS Capital that provides collection-related financial services; FedEx has established quite a number of financial service centers in the world, while DHL has independently developed many transportation insurance products, and its parent company owns financial institutions like Deutsche Postbank AG.

3.4 Forecast in technological development

In the next 5-10 years, the market will continue to show a strong demand for express delivery service. The government will intensify the efforts in driving sustainable development, while the manufacturing technologies in the upstream sectors of the express delivery service, such as manufacturing industry, are expected to head for the direction characterized by high-end, precision, green and convenience, which will bring profound impact on the express industry.

Table 3.1 Evaluation of impacts of new technologies on express industry

Impact / Timeline	High	Medium	Low
Short-term	Big data service, cloud service, vehicle-mounted information system, On Road, Integrated, Optimization and Navigation software (ORION), Next Generation Small Sort(NGSS), electronic signature, and electronic identity authentication technology	New energy automobile	Drone
Long-term	3D printing technology	Internet of Things, low-cost sensing technology	Reality-enhance logistics

Table 3.2 Technologies that have greater impact on express industry

Name	Summary
Big data service	Forecast changes in volume and customer demands, etc. through deeply analyzing original data to achieve dynamic management in the areas of network operation, supply chains and customer relation.
Cloud service	The cloud computing service primarily includes the provision of software platform and infrastructure service, technical supports such as large-scale computers for internal operation of express enterprises, as well as development of sets of digital service.
Electronic identity authentication	Electronic identity authentication refers to the issuance of legal digital identity certification through information and communication technology by the Postal Administration as a third-part to the customers. Now, Postal Administrations of many countries have started such an emerging service.
3D printing technology	A technology that is based on digital model file to construct an object by lay-by-lay printing using powdered metal or other adhesive materials. It is expected that in the next 10 years, 20% of products and parts in the world will be made by 3D printing technology directly or indirectly.
Internet of Things	In the next 10 years, the internet of Things will create a high-tech market in a size of over one trillion yuan, 30 times more than that of the Internet.
Reality-enhancement logistics	A technology that combines computer-generated virtue objects or information with real environment and then enhances or enriches the images thus created, which can be used to identify, position, and display information on the Internet of Things and conduct cross-operation.
Low-cost sensing technology	The sensor technology is the core technology in the Internet of Things. The reduction in the cost of sensors will help with the industrialization of sensors and therefore push forward the popularization and application of the Internet of Things.
Vehicle-mounted information system	It helps companies to better monitor and control their transportation system. The performance of the freight trucks can be measured by monitoring the indicators such as speed, engine speed, oil pressure, the usage of seat belts, number of backing and parking in neutral gear. Meanwhile, the enhancement of driver's quality and capability also helps reduce cost in fuel consumption and vehicle maintenance as well as ensure the safety of the drivers.
On Road, Integrated, Optimization and Navigation Software (ORION)	It helps the express enterprises realize real-time planning of driver delivery routes to save on-delivery time and fuel consumption by making use of a large amount of data of online map and optimization computation.
Next Generation Small Sort (NGSS)	By making use of big data in automated parcel sorting, it reduces reliance on information memorized by humans so that the sorting speed and quality have been improved and the time spent on training employees has been reduced significantly.
Drone	UAV express delivery. The express enterprises use unmanned flying objects to deliver small parcels. So far, express enterprises such as Shunfeng, Matternet, DHL and Amazon have carried out testing on Drone express delivery service.
New energy vehicle	The vehicles designed by advanced technical principles with new technology and structure, which are made possible by adopting non-conventional vehicle fuels as power source (or by adopting new vehicle power plant, using conventional vehicle fuels) and by combining advanced technologies in areas such as vehicle power control and drive. Currently, it will take time for the new energy vehicles to overcome the weaknesses of high operational cost and technical difficulties before they can be put in mass production and widely used.

Data source: related websites, 2014 European Post and Parcel Services Conference

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BJ-1405-02