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# Fast-shuffling Express Delivery Industry vs. Lagging Capital Access in China

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## Hot News



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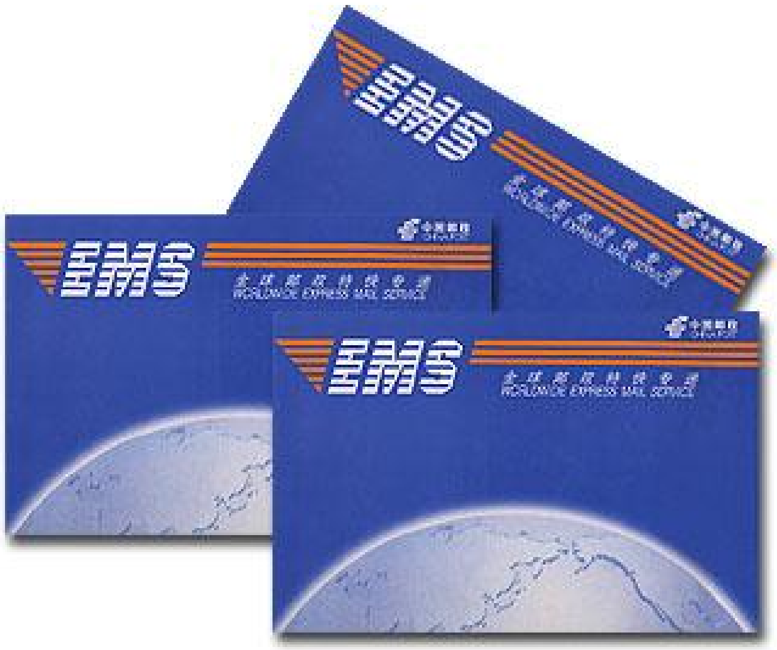
# Fast-shuffling Express Delivery Industry vs. Lagging Capital Access in China

*Written By Yolanda Zhang , Analyst with Zero2IPO Research Center*

In mid- and late June 2011, the State Post Bureau of PRC issued the Opinions on Promoting Merger and Restructuring of Express Delivery Enterprises ("the Opinions"). In accordance with the Opinions, it will offer preferential taxation and land policies relating merger and restructuring of express delivery enterprises, in order to foster a batch of large-size express enterprises with the annual revenue exceeding RMB10B and stronger international competitiveness in five years.

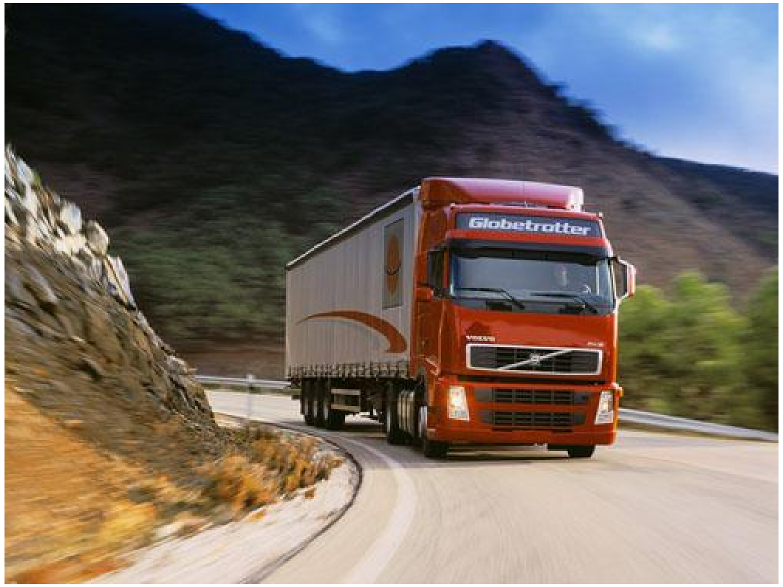



Around 1980, the express delivery industry was still in its infancy in China. Compared with other countries, China's express delivery industry started late, while express delivery industry related laws and rules were also established and improved relatively late. In 2006, after the development for more than two decades, China's express delivery industry basically took initial shape. In 2007, China began to deepen the reform of the postal service system, as evidenced by the fact that enterprises were separated from government functions and some laws and rules relating the express delivery industry were unveiled in succession. For a long time, because the express delivery industry is characterized by small size, weakness, decentralization and poor management in China, numerous investors shrank back at the sight of its irregular management mode. Nowadays, under the context of a promising express delivery industry in China, China's regulatory system for express enterprises will be consistently promoted, and Chinese express enterprises are also required to improve themselves while maintaining the rapid development. Can the two-way improved market offer a promising prospect for investors?

**China's express delivery industry needs self-improvement, especially private express companies shall be aware to "change or die".**

Currently, China's e-logistics industry mainly consists of SOEs, private and foreign-funded enterprises. According to current situation of e-logistics in China, private logistics companies take up less market shares than express SOEs due to distribution range of logistics service office, number and service of distribution personnel and distribution tools. Judging from the status quo of market development of private express companies, because Chinese private express companies started business more lately and the market is not normalized enough, their market witnesses an uneven development and a lower business concentration. In addition, the market sets a lower access threshold for private express companies, resulting to a soaring number of express enterprises and blind expansion in recent years. In other words, the current market characterized by small size, weakness, decentralization and poor management wants large-size private express enterprises with relatively strong brand influence and international competitiveness. In terms of size, SF-Express, a leading enterprise in China's private express delivery industry, reported an annual operating revenue of RMB11.00B in 2010. At the time of rapid growth of business volume, however, its labor cost also significantly soared. According to incomplete statistics released by research institutions, SF-Express has totally 60,000 couriers, indicating that its human resources cost occupies more than 50% of total costs. That is to say, it faces the pressure of existence and development undoubtedly.

As China's logistics industry is further internationalized, a part of private express companies that follow the development road of "neglecting services and management" inevitably lose shares to competitors from other markets. Additionally, after the Opinions were promulgated, the existence space of small and medium-sized private express companies have been further seized, accordingly, they face an awkward dilemma that requires changing or dying.




## China's e-commerce market rapidly develops into a major driving force of the express delivery industry, but they fail to develop in harmony.

As is known to all, the fast development of China's e-commerce market is a major driving force of express enterprises, particularly private express enterprises. China's e-commerce industry that has developed for more than 10 years propels the express market that has developed for above 20 years but witnessed less improvement, which shows Chinese characteristics to some extend. However, the express delivery industry fails to develop in harmony with the e-commerce market because the former lags behind the latter in regular development.

First of all, their industrial development speeds are not matched with each other. According to data of Zero2IPO Research Center, in 2010, the transaction scale of China's online retail market reached RMB521.98B, an increase up to 162.38% from the RMB198.94B in 2009. The figure is estimated to continuously increase in 2011. In fact, the fast-growing online retail market lays a firm foundation for the development of China's logistics industry. Seeing from data released by the State Post Bureau of PRC, nonetheless, the operating revenue of enterprises above designated size in China's express delivery industry was RMB57.46B in 2010, increasing by 19.96% from RMB47.90B in 2009. It can be perceived from these simple data that China's e-commerce market generates such a huge transaction volume that is beyond the current transport capacity of China's express delivery industry.

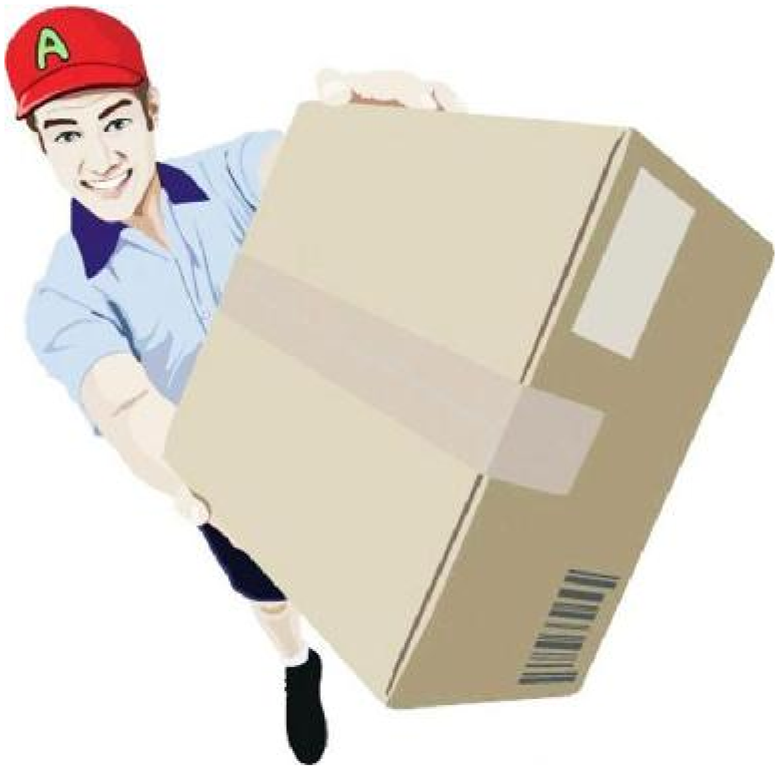
Secondly, their capital driving forces are severely unmatched with each other. Data of Zero2IPO Research Center shows that 115 financing deals took place in China's e-commerce market (including B2B, B2C and C2C) from 2010 to H1 2011. Of them, investment amount of 86 deals were disclosed, with the total amount of US $2.194B. At the same time, only 38 investment deals were disclosed in China's logistics industry from 2005 to H1 2011. Of them, 24 investment deals disclosed a total investment amount of US $2.001B and an average amount of US $83.37M. Among the 38 disclosed investment deals, eight were directly related with e-logistics, including six ones disclosing a total investment of US $46.54 million, with an average investment amount of US $7.7567 million. This indicates that capital is a remarkably different driving force to each of them. Although the effect is related to the development of the logistics industry itself, capital is inevitably an invisible force narrowing the development gap between the two closely related industries.

## As China's express delivery industry has diversified competitors, self-built logistics of e-commerce enterprises will have a far-reaching influence on the industry.

The unharmonious development between the express delivery industry and the e-commerce industry becomes the major cause of self-built logistics of e-commerce enterprises. From Joyo Amazon that developed the self-built logistics relatively early to taobao.com, 360buy.com and dangdang.com, self-built logistics of multi-business e-commerce enterprises becomes an irreversible trend. Besides, with the rapid rise of vertical category e-commerce enterprises, vancl.com, letao.com and masamaso.com successively built logistics warehouse and logistics teams. Inevitably, the development of self-built logistics of e-commerce enterprises will impact third-party logistics companies to some extent. In the years to come, with continuous investment and gradual improvement, self-built e-commerce logistics companies will become the major force to compete with third-party logistics companies. Of course, we could not rule out the possibility that they would further swallow market shares of third-party logistics companies.

## As merger and restructuring of the express delivery industry will bring numerous opportunities, capital can be injected in the industry chain in many ways.

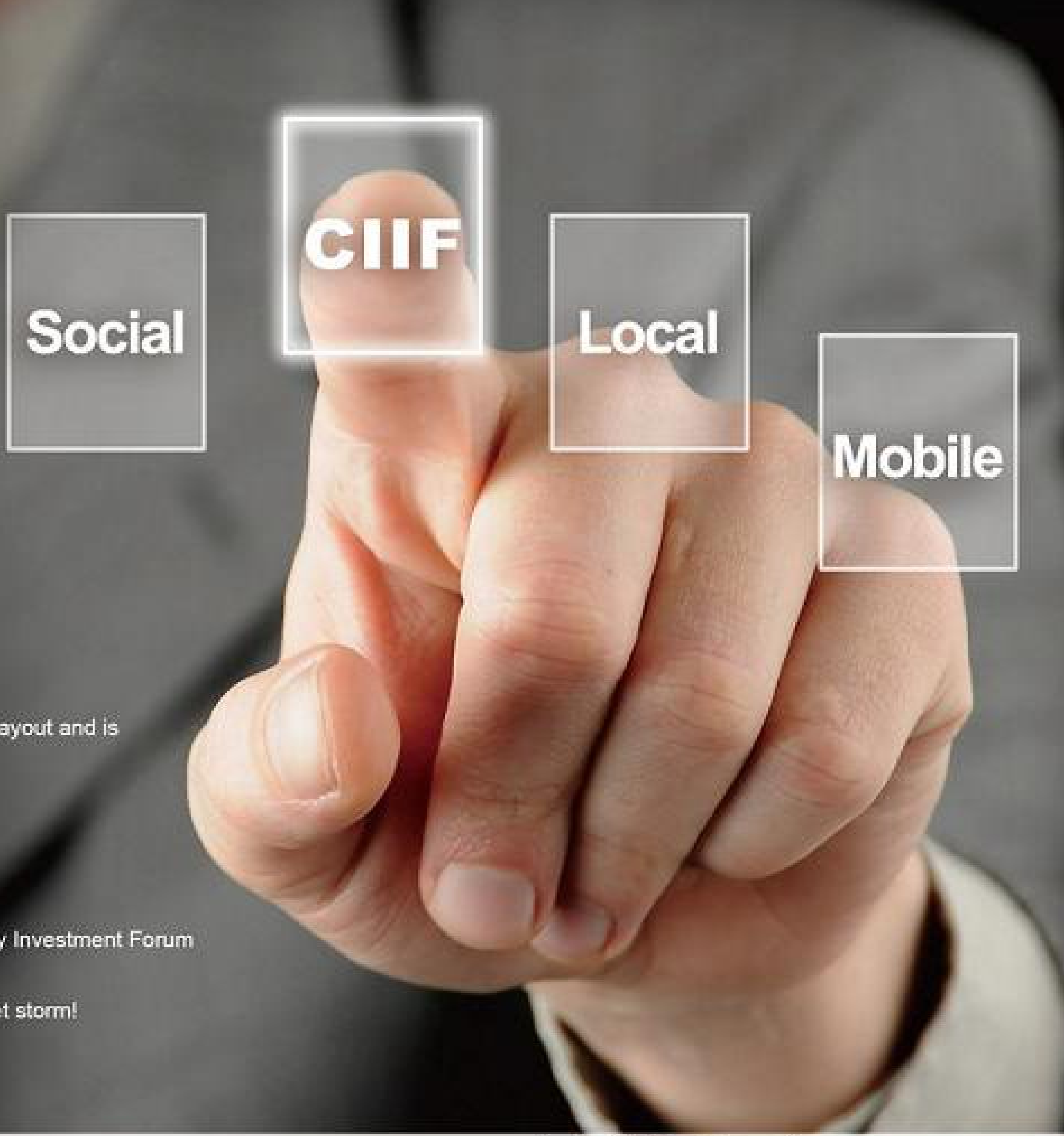
According to analysis of Zero2IPO Research Center, currently, Chinese e-commerce logistics companies can consider to invest in logistics service providers, logistics IT technology providers and data service providers that provide systematic supply chain integration services, besides private express enterprises. However, it is undeniable that private express companies have more accessible opportunities. Despite of conveniences provided by the Opinions, the new Postal Law promulgated in October 2009 also sets clear standards for capital size of express companies. Current industry data shows, however, approximately 80% of private express enterprises are inconformity with the conditions. Therefore, capital introduction or alliance building is the only way to the development of most small-sized private express businesses. ■



CIIF 2011
China Industry Investment Forum

# China Mobile-Internet Industry Investment Forum 2011

**Date:August 18th, 2011  Venue:Park Hyatt Beijing**




## Capital Causes Mobile-Internet Storm

3G network is extensively spreading,
Intelligent terminal is rapidly popularized,
Applications witness blossom,
The world of handheld mobile is full of brilliance…

Micro-innovation on fingertips
Leading the way of mobile Internet applications
New application experience
Changing social life in the information age
The tentacle of capital has already preempted its layout and is on the verge of breaking out…

Who will rise in industrial innovation?
Who will stand out from capital selection?
This August in Beijing
Zero21IPO–The 1st China Mobile-Internet Industry Investment Forum
--A Sumptuous Feast for the Industry and Capital
Capital serves as a fuse to trigger a mobile internet storm!

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## Legend Capital Invests US$ 30M in Lihua Livestock and Poultry

Jul. 14, 2011, PEdaily.cn, Christina Chao

Changzhou Lihua Livestock and Poultry and Legend Capital held the signing ceremony of strategic cooperation on Jul. 13, 2011. According to the provisions of investment agreement, Legend Capital and JiuZhou Investment will inject over US $ 30M and nearly RMB100M in the company respectively.

It is said the capital injected by Legend Capital and JiuZhou Investment will be used to the deployment of Lihua Livestock and Poultry in livestock and poultry raising industry, so as to promote its all-round industrial development and further standardize its operation and management for the IPO in the days ahead. It is revealed that Lihua Livestock and Poultry is about to start geese and pig industrialization production projects and plans to set up 8-10 new companies


incorporating the breeding of chickens, geese and pigs, in a bid to reach the annual sales revenue over RMB6B.

The data show Legend Holdings' consolidated turnover was up to RMB147B in 2010, the proceeds mainly from IT, investment, real estate and other industries. Founded in 2001, Legend Capital manages RMB12B funding that has been invested in innovative and growth-stage enterprises in such fields as information technology, outsourcing services, health care, modern manufacturing, modern agriculture and other areas in Chinese market. So far, Legend Capital has invested more than 100 companies. Among them, 18 have been listed.

## Orchid Asia Raises US$650M in Its China Fund V

Jul. 12, 2011, PEdaily.cn, Christina Chao

According to the foreign media reports, Orchid Asia Group ("Orchid Asia") has completed the raising of its China Fund V with a total of US $ 650M. The group principally invests in on the Chinese consumer services and products sector, as well as the manufacturing and services.

Orchid Asia, said in a statement, the fund

According to the statement, Orchid Asia has invested in 45 companies, and exited or partially exited 22 of them, with another eight to 11 potential IPOs and trade sales in the pipeline over the next 12 months,.

Past data shows that Orchid Asia completed the raising of its China Fund IV worth US $ 420M in February 2008. Orchid Asia's major investors include world-renowned institutional investors, independent private banks, university endowments, insurers, strategic individual investors and family offices.

## Wuxi Creates First Cultural Industry Fund with Size of RMB1B

Jul. 13, 2011, PEdaily.cn, Christina Chao

Wuxi Broadcasting & Television Group and Meridian Capital held a signing ceremony on Jul. 12 for their collaboration in creating Wuxi Huaying Cultural Industry Fund, the first culture-focused fund in Wuxi.

It's learnt that Wuxi Huaying Cultural Fund is planned to raise RMB200M at the initial stage and RMB1B as the final size. Backing with the advantageous resources of Wuxi Broadcasting & Television in traditional media field together with Meridian Capital's experiences and broad layout in new media