

Dissertation for the degree of master

**A comparative Study on Development Strategy
of Freight Forwarding Companies between
China and Korea**



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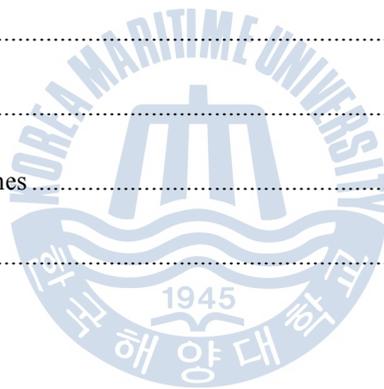
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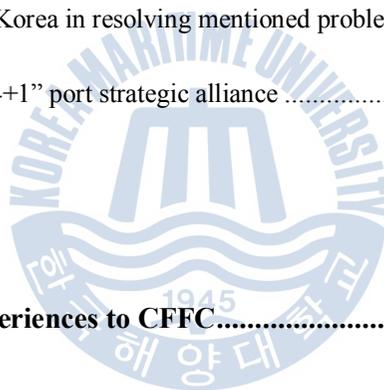
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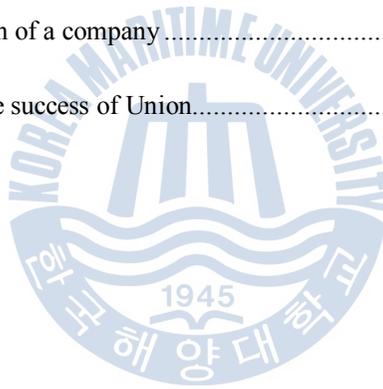
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A comparative Study on development strategy of Freight Forwarding companies between China and Korea

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Abstract

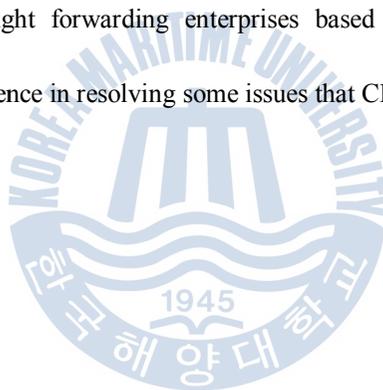
Along with the fast development of international trade and commerce, China's international freight forwarding industry also got an unprecedented opportunity for its rapid development. The role of freight forwarding industry in fostering china's economic development is irreplaceable. It was recognized as the "link chain" connecting shippers and carriers. And at the same time, it is also referred to as organizers and designers of international logistics.

In 2004, the state council issued a document NO. 16 "a decision about the third round of cancelling and adjusting the administrative examination and approval ", marked that the examination and approval system in freight forwarding industry has formally changed into grading system. From that moment, the freight forwarding industry in our country has been going to enter a new era and the high-flying market admittance threshold of past has been cut down flat overnight. Therefore, a large number of freight forwarding companies have been springing up as bamboo shoots grow fast as after a spring rain. Besides, in the context of fierce competition and changing international environment, many freight forwarding enterprises in china have suddenly started to

realize that though survival problems has been solved, in the face of the changes in macroeconomic environment and large extrusion from large-scale freight forwarding enterprises, small and medium-sized freight forwarding enterprises how to develop themselves has become a more and more prominent problem.

This paper is based on this above-mentioned topic and aims at seeking new dimensions and opportunities for promoting and stepping up the growth of China's freight forwarding enterprises.

At the same time China's neighboring country- Korea's logistics industrial development runs ahead of Chinese logistics industry development to some extent. This article will find a breakthrough for China's freight forwarding enterprises based on Korean freight forwarding enterprises development experience in resolving some issues that CFFC are confronting.



中韓 프레이트 포워딩 企業의 發展 戰略에 대한 比較研究

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초록

중국의 국제무역과 상업의 급속한 발전은 프레이트 포워딩 산업에 전례 없는 기회를 제공했다. 프레이트 포워딩 산업은 중국 경제 발전 촉진의 대체불가능한 역할을 하고 있다. 그것은 화주와 물류 사업자를 연결 하는 "링크 체인"으로 인지되고 있다. 그리고 동시에 국제무역의 조직자 및 디자이너라고 불리어진다. 2004 년에, 중국 국무원은 “국무원 제 3 차 행정조정 심의안의 결정” (國務院關於第三批取消和調整行政審批專案的決定) 이라는 문서를 발행했다. 이것으로 인하여 국제 프레이트 포워딩 산업에 존재하고 있는 행정심사 제도는 공식적으로 폐지되었고 등록 제도가 시행되었다. 이러한 행위는 중국의 물류 산업을 시장경쟁의 새로운 시대를 진입하게 했고, 높은 수준의 시장 접근 장애를 하룻밤에 평준화되도록 만들었다. 따라서 많은 수의 프레이트 포워딩 기업이 단시간에 탄생하게 되었다. 신속하게 변화하고 있는 치열한 국제 경쟁의 환경 하에서 중국의 많은 프레이트 포워딩 기업들은 비단 생존의 문제 뿐 아니라, 거시 경제 환경의 변화와 국외 경쟁에 직면하면서 기업들이 스스로

발전하기 위한 방법이 더 중요한 관점이라는 것을 깨닫기 시작했다.

이 논문은 위에서 제기한 문제점을 밝히고, 목표를 제시하여 중국의 프레이트 포워딩 기업들의 미래의 성장을 위한 기회를 찾고, 새로운 영역에 도전할 수 있도록 하고자 한다.

또한 한국의 프레이트 포워딩 기업 발전 모델을 연구하여 중국 기업에게 또다른 돌파구를 제시할 수 있을 것으로 기대한다.



Chapter 1 Introduction

1.1 Background briefing

In early 2003, foreign shipping companies, led by Maersk, unilaterally announced adjusting downwards or canceling booking commissions¹. As the main Revenue Commission was called off, freight forwarding enterprises in our country have suffered a lot of losses. More than 70% of freight forwarding enterprises was expected to go out of business. So, the freight forwarders' associations called for taking a joint boycott campaign and stopping booking shipping space from Maersk. Despite, after several rounds of coordination and negotiations, the two sides have finally reached an agreement to make certain concessions, our freight forwarding enterprises are obviously at a disadvantageous position in competitions with the foreign shipping company. Moreover, in the consideration of foreign development trend, experience shows the cancelling commission is an inevitable trend. In recent years, more and more imported buyers are prone to appoint foreign freight forwarders to effect shipments based on FOB terms in current international trade. So far, there are about 60% to 70% of commercial contracts have been signed or will be signed in FOB terms². Meanwhile, foreign buyers can execute a double power of appointment i.e. they can designate both a shipping company and a freight forwarding company. Foreign buyers prefer to make use of foreign forwarding company so that it is

¹ Xu Tan. Freight forwarding and shipping companies started the "Gulf war". China Economic Journal. 2003.3.31.

² Fei Zeshan. Disadvantages of exporting the specified forwarding based on FOB term. Shipping Gazette of China. 2002.

very hard for domestic freight forwarders to collect cargoes. Besides, because of imperfect policies and oversupply in freight forwarding market, freight forwarding enterprises' survival space is getting smaller and smaller in particular for the small and medium-sized freight forwarding enterprises which account for the majority of total amount of freight forwarding enterprises.

When joining the WTO, China has made commitments to further open up the freight forwarding market to the world that³: after China's entrance to WTO, it would allow foreign freight forwarding enterprises which have at least 3 consecutive years of experience to set up joint venture enterprises in China with a limit of not exceeding 50% of the total assets. Within one year after joining WTO, foreign investments will be allowed to hold stakes in majority and within four years after joining WTO, foreign-owned subsidiaries will be allowed to set with a limit of a minimum registered capital that is not less than 100, 0000 USD. In terms of registered capital, these enterprises are entitled enjoy national treatment. Moreover, within one year after operation, if the registered capital is put in place very well, they can set up branches; and after five years, they can set up the second joint venture enterprise.

China's freight forwarding enterprises have a low entry threshold. Even for national first-level forwarding enterprises or NVOCC (NVOCC), the services provided are mainly restricted on booking, trailer, customs inspection and other traditional business links. Moreover, they can only provide one or several traditional business in particular lack of

³ Chen shuangxi, Zhu Haiwen. Trends in freight forwarding industry after joining the WTO. World shipping bulletin. 2002.

systematic services⁴, and the reason is due to lack of global service network, modern information system and value-added service capabilities, lack of independent services ability⁵.

1.2 Research method

First of all, this paper introduces the definition and working procedures of freight forwarding enterprises in details.

Secondly, the thesis comprehensively sums up both the China's and Korean freight forwarding industry's situation, and makes a conclusion by making comparison that the development level of Korea's freight forwarding industry is more developed and prosperous than that of China.

Thirdly, this paper lists some major issues that China's freight forwarding companies (CFFC) are encountering through SWOT and elaborates some countermeasures adopted by (KFFC) Korean freight forwarding companies in tackling aforesaid issues.

Forth, this paper introduces the application of countermeasures to CFFC and helps find a right way for CFFC in the future.

4 Xulu. International freight forwarding and NVOCC. Shipping trade bulletin. 2002.

5 Kuang Lin. Strategic transformation of Chinese middle and small freight transportation enterprises under new economy. Master's degree thesis, University of Economics. Shanghai. 2004.01.01. pp.1-5.

1.3 Research purpose

This paper is designed with an eye to finding a good way for future development of CFFC in particular small and medium-sized freight forwarding companies which account over 90% of total number of CFFC through the development experience and development model of KFFC.

1.4 Review of Related Researches

In the early 1980s, some enterprises in the United States have considered restructure and reengineering as a means of improving management rationalization and the business content and the appropriate application of resources has been readjusted. They brought up an opinion that priority should be given to develop core competitive business and at the same time non-core business should be outsourced to other specialized enterprises. Subsequently, outsourcing has become a major trend in the commercial field in developed countries⁶. Driven by this trend, the third party logistics enterprise has got a good opportunity for their emergence.

With the continued development of the third party logistics, experts in some western developed countries have made much research and investigation into the third party logistics. Lieb and Randall of the United States (1995) took such view that the third party logistics including outsourcing business belongs to a part of logistics activities which

⁶ Pilar L, Gonzalea. Environmental and reverse logistics policies in European bottling and packaging firms [J]. 2004: 95-104.

should be done within the company in the past. The role of the third party logistics enterprises should include the entire logistics process⁷.

With the continuous improvement of the service level of China's logistics industry, the third-party logistics has already left adequate leeway for further development. Many experts in China have conducted description on third party logistics based on successful experience of developed countries. Cao Cuizhen believe that there is great potential in the China's logistics industry and the current development is far from meeting market demand, therefore should speed up the pace of development of logistics industry in China such as setting up modern logistics concept, establishing and consolidating logistics infrastructure and establishing logistics information platform⁸; Luo Wenping has introduced the concept of the 3PL and expounded the management method towards 3PL in details as well as put forward the successful experience that foreign enterprises had based on case analysis⁹; Wang Xiaodong took this view that domestic logistics market has great potential, but service content is very single and simple and the infrastructure of logistics cannot meet current market requirements¹⁰.

⁷ Lieb, Robert. A Comparison of the Use of Third-party Logistics Services, *Journal of Business Logistics*. 1996

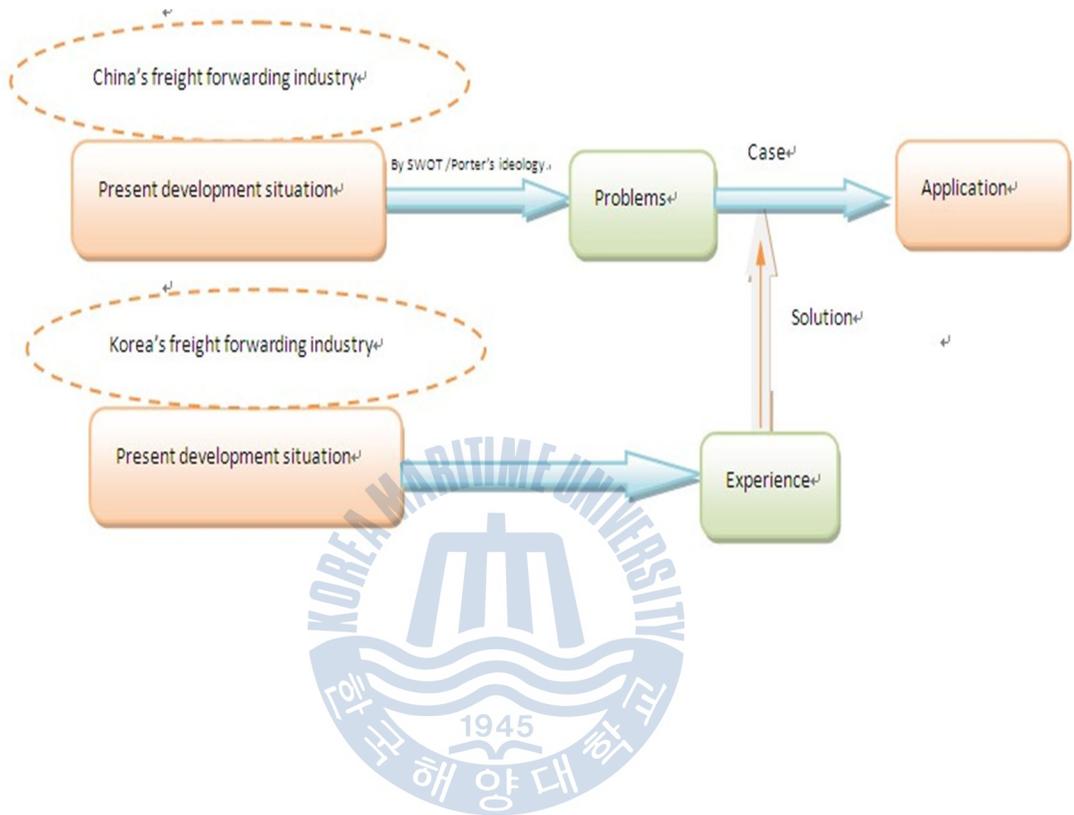
⁸ Cao Cuizhen. Prospect on the development of logistics industry in China. "the study on productivity", from knowledge network of China. 2004.2.

⁹ Luo Wenping. Theory of the third party logistics, operations and cases. Shanghai Academy of social science publishing house. 2001.

¹⁰ Xiaodong Wang. Discussion on the impact of China's entering WTO on the third party logistics industry "j". China foreign investment. 2002.1.8.

1.5 Structure of thesis

Figure 1-1 Structure of thesis



Chapter 2 International freight forwarding industry

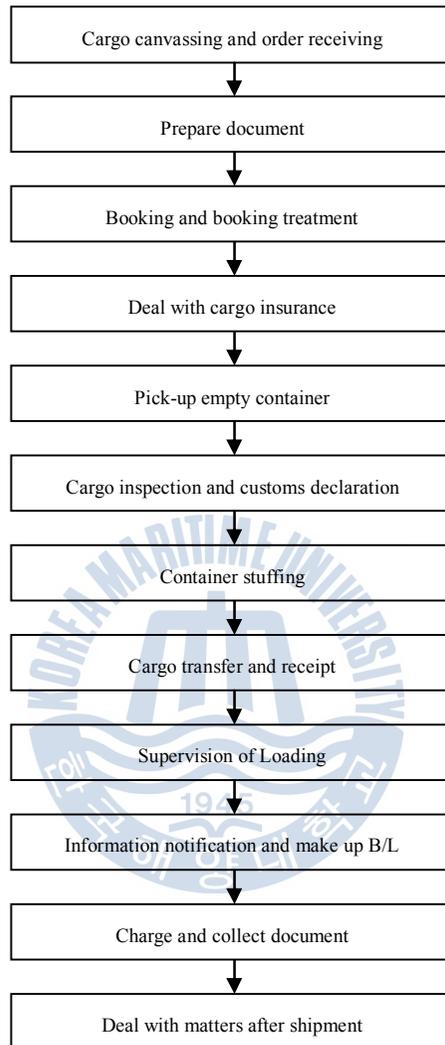
2.1 Basic concept of international freight forwarding industry

The international freight forwarding industry is defined as the following in the regulations on management of international freight forwarding industry of the People's Republic of China in a clear-cut way, namely: international freight forwarding industry is an public service industry aimed at accepting commitment from import and export cargos' consignees or consignors by handling international cargo transportation and other relevant businesses on behalf of consignors or in his own name in order to charge service fees.

2.2 Working processes of freight forwarding enterprises

The business scope of traditional freight forwarding companies mainly includes shipping import and shipping export, figure 2-1 below is the Full Container load (FCL) business export processes, and other business processes are similar to this in principle.

Figure 2-1 Working processes of freight forwarding enterprises



Source: Operation instance of BangDa freight forwarding company

2.3 Service object and content¹¹

In terms of the basic properties of international freight forwarding companies, the freight forwarders mainly accept commissions respecting transport, transshipment, storage,

¹¹ <http://baike.baidu.com/view/170958.htm>, Encyclopedic Knowledge.

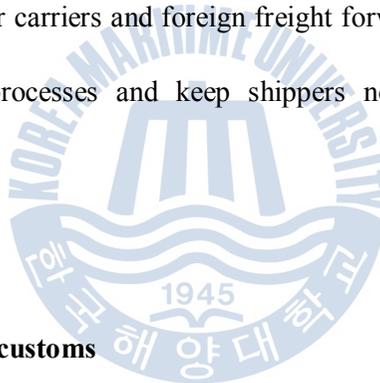
loading and unloading and tackle other problems. On the one hand, freight forwarders conclude transport contracts with shippers of goods, but on the other hand, they also enter into a contract with transport sectors. Relative to the shippers of the goods, the freight forwarders are seen as carriers. Currently, a considerable part of the cargo agents have a good grasp of all kinds of transport tools and warehouses. In conducting businesses, they also provide other transport services including land, sea and air cargo transportation. The main activities that the international freight forwarders engage in can be summed up as follows:

2.3.1 Providing services to consignors

Freight forwarders are in place of shippers to take on dealing with operational procedures in different cargo transports.

- 1) Choosing proper packaging and arranging transport routes in the most economical transport mode.
- 2) Selecting reliable and high-efficient carriers and being in charge of the signing of transportation contract.
- 3) Give advice to customers about warehousing and distribution.
- 4) Arrange for weight and measurement of goods.
- 5) Cover insurance on goods.
- 6) Dealing with consolidations of goods.

- 7) Arrange storages before shipment or allocations of the goods at the destination.
- 8) Arrange goods for being transported to the port and go through customs procedures and prepare other related documents and deliver the goods to carriers.
- 9) Pay the freight charges or customs taxes on behalf of shippers or importers.
- 10) Handle any kind of foreign exchange transactions concerning cargo transportation.
- 11) To obtain all kinds of signed bill of lading from the carriers and mail them to consignors.
- 12) By contacting with their carriers and foreign freight forwarding agents to monitor the whole transportation processes and keep shippers notified of the locations and situations about goods.



2.3.2 Providing service for customs

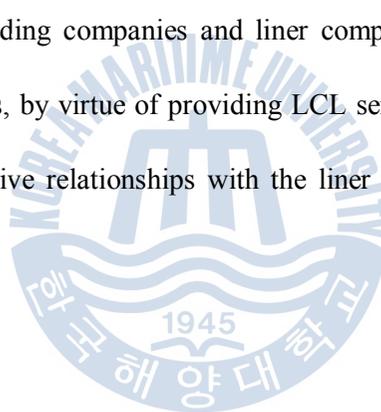
When the freight forwarders go through customs formalities for import and export commodities, they are not only acting on behalf of clients, but also as representatives of the Customs authorities. In fact, in many countries, they get permission from related authorities to cover customs formalities, and at the same time, they are also responsible for declaring the exact amount, quantity, and name of the goods to customs in order to enable the government not to suffer losses in these aspects.

2.3.3 Serving for carriers

Freight forwarders book shipping space from carrier on a timely basis, and negotiate a fair and reasonable freight charge suitable for shippers and carriers while arranging an appropriate time to make delivery as well as resolve some freight accounting issues on behalf of shippers and carriers.

2.3.4 Provide liner companies with service

Relations between forwarding companies and liner companies vary with the business environment. In recent years, by virtue of providing LCL service, freight forwarders have established closely cooperative relationships with the liner companies and other carriers (such as railway).



2.3.5 Provide LCL service

With the growth of containerization transport in foreign trade, the groupage service and consolidation service have been intensively introduced. When providing this kind of service, freight forwarders play an important role as consignors.

2.3.6 Provide multimodal transportation service

One more profound and far-reaching impact of the containerization is that freight forwarders are able to directly involve in multimodal transport activities acting as major

carriers and provide door to door service by bringing in multimodal transportation model. They can negotiate business and sign contracts with either the real carriers or other service providers individually on behalf of consignors. However, the distribution contract will not affect the implementation of multimodal transport contracts, which means it will not affect consignors to carry out obligations and to take responsibility for damage and losses of goods in the process of multimodal transport. But when freight forwarders service as multimodal transport operators, they usually need to provide comprehensive "package" services including all transportation and distribution process, and take responsibility for serving their customers.



Chapter 3 Comparison between CFFC and KFFC

3.1 Comparison in number and geographical distribution

3.1.1 Present situation of CFFC in number, employees and distribution

In China, the development of the international freight forwarding enterprises started late and has a short history but rapid progress has been made thanks in part to substantial support and encouragement by governments in policies. By the end of 2007, the number of international freight forwarding enterprises officially registered has been more than 11000 if considering about the second grade and third grade freight forwarding enterprises attached to this first grade freight forwarding enterprises, a conservative estimation about the actual number should be more than 40,000. And the employees who are directly or indirectly engaged in this industry at least 500,000 in number. Among them, divided according to region, coastal areas accounted for 70%, and landlocked areas accounted for 30%. According to Service category, there are 361 enterprises engaged in international air cargo business, accounting for approximately 9.6%¹².

Currently, there is near 80% of transport and transshipment business of imported and exported goods and 90% of the international air cargo transport operations has been completed through international freight forwarding companies¹³.

The figure 3-1 is the top ten regions in ranking in the light of the number of freight

¹² Situation of CFFC in number cited from: <http://www.worlduc.com/>

¹³ Situation of CFFC in geographical distribution cited from: <http://www.worlduc.com/>

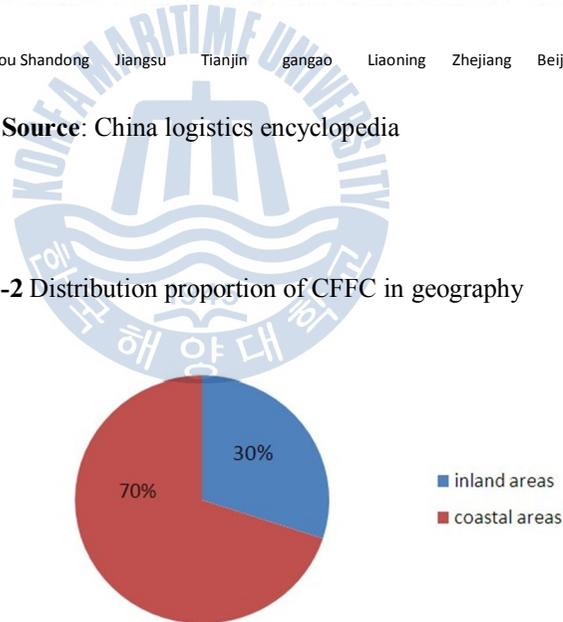
forwarding enterprises in all parts of the country. The number of freight forwarding enterprises in Shanghai municipality has reached 2100, ranked in number.

Figure 3-1 Geographical distribution of freight forwarding companies



Source: China logistics encyclopedia

Figure 3-2 Distribution proportion of CFFC in geography



Source: China logistics encyclopedia

After joining the WTO, China international freight forwarding industry is facing both challenges and opportunities. According to the newly revised annex for guiding foreign investment industries, the Chinese Government has committed that the proportion of

foreign capital in China's freight forwarding industry sector can measure up to 50%: not later than December the 11, 2002, allowing foreign holding up to more than 50% of total shares; and not later than December the 11, 2005, the foreign-owned enterprises will be allowed to set up, which shows that the entry threshold into international freight forwarding industry in China is gradually lowered and will be fully open some day. For a long time before, freight agent always between ships and cargos devoted in providing service as a middleman. Business realm is merely limited to some simple links such as booking, customs clearance, transit services and so on. But With the escalation of freight forwarding market and foreign freight forwarding enterprises access to China's market, this management modal has been seriously attacked.

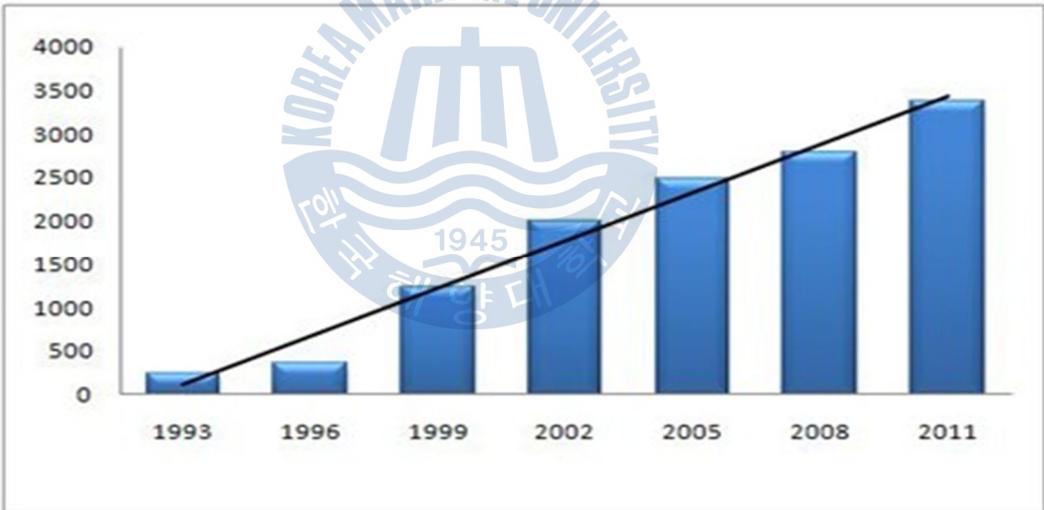
3.1.2. Present situation of KFFC in number and distribution¹⁴

With the establishment of Harbor shipping Office 1976, maritime Harbor based on document No.6 issued by the Office (Outer Harbor Marine transportation with career Essentials) given in conformity with the provisions of freight transport enterprise qualification. In according with the established law on promoting the flow of goods of Korea December 14, 1991, by July 17, 1992, there are 60 enterprises registered in total. In 1993, thanks to the revision of the law on promoting the flow of goods, a lot of freight forwarding business has got an unprecedented opportunity for development. And according to the law, the words "ocean shipping freight agency" which presents the

¹⁴ Yoo, Byung Ryong. A Study on the Evaluation of the Management Efficiency of the International Freight Forwarding Companies in Korea. Master's degree thesis .The Graduate School of Korea Maritime University. 2007.6.pp12-20

integration between ocean shipping freight forwarding industry and international freight forwarding industry with was replaced by international freight forwarding industry. And at the same time, South Korea aviation goods association and multimodal transportation industry association changed their names into Korea multimodal transportation at the same time registered capital of standard of international freight forwarding enterprises changed from 500 million to 300 million in KRW.

Figure 3-3 Development state of international freight forwarding companies



Source: In-Hwoan Yu, A Study on the Global Competitive Strategies of LCL Consolidation Forwarder.2012.2.

Figure3-3 is a statistic in number according to regions, which shows that the majority of freight forwarding enterprises in Korea is concentrating in both capital region and BUSAN

municipality. By the end of 2006, there are totally 2411 freight forwarding enterprises, and if including these companies which are not registered in the government the number of freight forwarding enterprises may up to 3500 as expected¹⁵.

Table 3-1 Number of freight forwarding companies counted based on administrative region

Region	Seoul	Busan	Inchon	Daegu	Daejeon	Gwangju	Ulsan	Gyeonggi	total
Number	1888	240	95	24	3	3	6	110	2411
Region	Chungnam	Chungbuk	Kyungbuk	Kyungnam	Jeollabuk	Jeollanam	Gangwon-	Jeju	
Number	1	4	6	14	0	14	0	3	

Source: In-Hwoan Yu, A Study on the Global Competitive Strategies of LCL Consolidation Forwarder.2012.2.

The international freight forwarding industry is highly dependent on the skill of operation of staffs. According to a survey report on transport industry made by statistical office that the proportion of freight forwarding enterprises with less than 20 staffs is accounting for 82.9%.

¹⁵ In-Hwoan Yu.A Study on the Global Competitive Strategies of LCL Consolidation Forwarder. Master's degree thesis. Chung-ang University.2012.2.pp12-15.

Table 3-2 Status of employees in scale

Year	Employee	Less than 20	20-100	More than 100	total
1999	frequency	35	25	11	71
	proportion	49.3%	35.2%	15.5%	100.0%
2004	frequency	1108	190	38	1136
	proportion	82.9%	14.2%	2.8%	100.0%

Source: In-Hwoan Yu, A Study on the Global Competitive Strategies of LCL Consolidation Forwarder.2012.2.

3.1.3 Conclusion based on comparison between 3.1.1 and 3.1.2.

Due to China's large population and vast territory area I think it is inevitable for CFFC to outnumber KFFC and also I take such view that it is very hard to make a fair comparison in terms of registered number and employees' numbers. The situation of distribution of freight forwarding companies has shown that for CFFC are mainly located in coastal areas and KFFC are mainly situated in Seoul and Busan areas.

3.2 Comparison of development phases between CFFC and KFFC

3.2.1 Development phase of CFFC¹⁶

Generally speaking, any industrial development must go through its infancy phase, development phase, mature phase, and phase of recession. But the development of CFFC as a product of economic development with Chinese characteristics, Primary phases can be summarized as development phase, architecture formation phase and transformation phase.

1) Installation period (1978---1993)

Stage of development of CFFC is different with that in Korea in comparison, no experienced germination period. After the reform and opening up in 1978, China has gradually shifted its economic pattern from planned economy to market economy, freight forwarding market gradually opened. Government introduced and released some stimulus policies to support and encourage the private sector; barriers to entry are increasingly getting lower, so CFFC entered a period of rapid development.

2) Development and architecture formation period (1993---2000)

In recent years from 1993 to 2000 is very important arena in the development of the international freight forwarding industry. During this period, it was approved to set up

¹⁶ Kuang Lin. The strategic transformation of Chinese middle and small freight transportation enterprises under new economy. Master's degree thesis, school of Economics, Shanghai. 2004.01.01. pp1-5

many freight forwarding companies and promoted fair competition. In this context, the market architecture has taken shape marked by Chinese and foreign forwarding companies' coexistence and competition from several freight forwarding businesses.

3) Transformation phase (2000---now)

With the rapid development and popularization of information and communication technologies, as well as the ever-increasing world economic integration process and the increasingly competitive freight forwarding market, traditional CFFC are facing great changes in environment and infrastructure, their original rational operating mechanism has become unsustainable. In order to adapt to the new environment and new situation, CFFC must make adjustment to development pattern, focus on customers ' needs in a timely manner, as well as pay more attention to changes in market. In this period some entrepreneurs with strategic vision have been transforming the traditional enterprise management mode to cope with challenges. The transformation of freight enterprise can be divided into three stages, namely: Transition to a non-vessel carrier, transition to a TPL, the establishment of virtual logistics Enterprise Alliance. The establishment of virtual logistics enterprise alliance is the ultimate goal.

3.2.2 Development phase of KFFC¹⁷

¹⁷ Seon-Won Lee. A Study on the Promotion of Freight Forwarder's Business in Korea. Master's degree thesis. InHa University. 2007.2.pp32-40.

With the formulation of import and export policy and rising trade volume, Korea formally introduced freight forwarding system in the last century 70's, and on the other hand, Along with freight forwarding companies of Germany, and Switzerland and other developed countries entering Korea, freight forwarding companies began to sprout in Korea as a kind of service enterprise. The development process of freight forwarding enterprises in Korea can be divided into three periods: installation period, development period, and mature period.

1) Installation period(1970---1976)

During this period, the freight forwarding enterprises in Korea are not mainly engaged in handling freight business but as agency of foreign enterprises. That is to say, the business operation of Korea's freight forwarding companies is very single and only limited in terms of shipping agency, freight collection and so on.

2) Development period(1977---1983)

The implementation of the law on marine transportation business has provided a legal basis for the development of the freight forwarding business. From the beginning of 1976, there are only 26 enterprises were approved to set up, in late 1979 the number increased to 50 which were officially engaged in providing freight forwarding services.

3) Mature period(1984---now)

The previous law of law marine transportation business has been replaced by the shipping law issued On December 31, 1983. This move represents that the registration of freight forwarding enterprises has changed from examination and approval System into registration system. And then with the amendment of the law on promoting cargo movement of Korea in 1993, the registered condition is also loosen a lot so that the freight forwarding enterprises has a noticeable increase in the number. Besides, Recently due to the rapid development of electronic technology and scientific management and talent cultivation, Korea's freight forwarding industry has entered a period of relative maturity.

3.2.3 Conclusion after having analyzed development phases

Comparison between the developments processes between Korea and China introduces that CFFC are mainly appeared in 1978, after reform and opening up, while Korea was in 1970. Thus such conclusion can be made that the KFFC started to develop earlier than CFFC, about 10 years earlier. That's more, Korea's enterprises went into mature stage in 1984, and CFFC are mainly after 2000. These show that CFFC can study a lot from KFFC on development experience and business strategies.

3.3 Comparisons between business strategies

3.3.1 Strategies usually adopted by CFFC

As for the forwarding enterprise, if they want to gain a competitive advantage in competitive market, in addition to lower the cost of operation, bring down agency cost and realize the scale economy, they must select an appropriate target market on the basis of market segmentation and make every effort to chart a big marketing competition strategy in order to maximize their core competitive power.

The core competitiveness of freight forwarding companies refers to that freight forwarding enterprise by providing a unique service to form up a special ability for helping take up freight forwarding market, strengthening competitive advantage and achieve protracted profit. The core competitiveness of freight forwarding companies is concentrated and reflected in functions of service and their service standards. In looking for the core competitiveness a fair comparison should be made with other companies which enjoy advanced management, Standard operation and good reputation and also need to combine with its own advantages in resources to work out a full set of competitive service standard and service norms corresponding to their own conditions. As far as the core competitiveness is concerned, it should include the following several points: comes to employee behavior, it should include the concept of enterprise services, the demand for employee's quality, and employee's code of conduct; In respect of business operation, it should be guaranteed that the operational details and confirmation time in business operation is absolutely right; Concerning auxiliary services, all information should be offered to consignor about transportation such as packing, Clearance procedures, goods classification, foreign laws etc.

Under traditional economy, according to Porter's competitive strategy though¹⁸ enterprises generally resort to three kinds of basic competition strategies, namely: Scale management strategy, differentiation strategy, and focusing strength strategy respectively. It is very hard for CFFC to realize the Scale management strategy owing to resource limit. Therefore most of freight forwarding enterprises has to adopt the differentiation strategy and focusing strength strategy¹⁹.

1) Differentiation strategy

The so-called differentiation strategy is that freight enterprises provide a special service in quality which conforms to current market level and cannot be replaced and set up a good brand service in image and provide differentiated services on the market. It specifically includes three areas:

First: quality differentiation, namely is that a service provided by a certain freight forwarding enterprise is obviously superior to other similar services provided by other suppliers in terms of service standard and service level. As for the competitors in the freight forwarding industry, actually essential elements of the service are similar or same. So the difference is reliant on service standard and service level. In the case of meeting the basic needs of the shippers, the end goal of characteristic differentiation strategy is to

¹⁸ Porter. Competitive advantage. Chen, xiaoyue translation. Beijing: Huaxia Publishing House

¹⁹ Kuang Lin. Study on the development strategy of middle and small-sized freight forwarding company. Master's degree thesis. Shanghai University. 2010.6. pp12-30.

contribute unique services to shippers. To approach this goal, conception innovation, system innovation and management innovation can be considered as essential factors.

Second: generally speaking, Image differentiation refers to that for freight forwarding enterprises by providing such premium services to shippers as effective brand marketing, introducing CI development strategy and furnishes quality services in order to constantly set up advanced management image.

Third: Market differentiation refers to make difference in terms of service condition, service content and service level. To be more specific, it can be divided into four aspects namely: freight difference (agent service charging standard, Free Service Items), shipping route difference (Europe- America route, Southeast Asia route, Japan-Korea route),service item difference(Whether providing customs brokerage services, whether providing air freight service) and after-sale service difference(making documents, providing market information, shipper's advice feedback).

2) Focusing strength strategy.

As for freight enterprises, they are absolutely impossible to take up the whole freight market result from small scale, weak strength and limited resources. What should they do is to focus all their limited resources on developing potential market and offer specialized services to shippers in special areas in order to take shape relative advantage. Because by so doing, they can not only minimize risks of avoiding direct battle with others, also seek space for their own survival and development.

With respect to the implementation of focus strength strategy, close attention must be given to the following four things. First, attach importance to the market potential. That is to say, the market for providing services must have sufficient space to support the survival and development of the freight forwarding enterprises. Secondly, take moves in light of actual conditions. Because of complicated processes and high risks, freight forwarding enterprises must take their own risk-bearing capacity seriously. Third, provide specialized service. They could classify goods to be represented into several categories according to service uniqueness and shipper's specific requirement when providing services to shippers. For example, food category can be subdivided into cereals, grains, beans and others. Finally, pay more attention to customer management. Freight forwarding market has changed into brand competition, service and customer competition. Only build and maintain a long-term and good cooperative relationship and provide satisfactory service to customers, can they dominate the market and get the maximum profit for China's freight forwarding enterprises under new economic forms.

3.3.2 Review of strategy of Korea's freight forwarding enterprises

In order to solve some management problems existing in Korea's freight forwarding enterprises industry as well as settle the matters of bottleneck.

- 1) Seon-Won Lee²⁰ proposed the following strategies which should be implemented:
 - a) Cultivation of small-scale freight forwarding enterprises

²⁰ Seon-Won Lee. A Study on the Promotion of Freight Forwarder's Business in Korea. Master's degree thesis. InHa University. , 2007.2. pp67-90.

- b) Development programs on market sales side
 - c) Government development programs
 - d) Global freight forwarding industry training program
 - e) Cultivation of integrated information network
- 2) Bai-Sik Bai²¹ made the following points about strategies which can be adopted by freight forwarding enterprises
- a) Reconditioning legal system and creation of sources of income (WT strategy)
 - b) Construction of logistics standardization and expansion of the logistics infrastructure (ST strategy)
 - c) Guiding enterprises to realize scale management and training logistics specialist (WO strategy)
 - d) Building global logistics system and cultivating comprehensive logistics enterprise (SO strategy)
- 3) As for development strategy of freight forwarding companies, Jong-Hyun Kim²² put forward the following views.
- a) Actively developing logistics routes

²¹ Bai-Sik Bai. A Study on the Strategic Development Plan of the Freight Forwarding Industry in Korea. Master's degree thesis. Korea Maritime University. 2007.2. pp90-100.

²² Jong-Hyun Kim. Study on Growth Strategy for Freight Forwarding Industry. Master's degree thesis. Myongji University. 2010.12. pp58-68.

- b) Cultivation of the State-owned freight forwarding enterprises
- c) Construction of the system of advanced logistics equipment
- d) Composition of the logistics services of high added value
- e) Construction of comprehensive logistics information system

Obviously, there are a lot of opinions in common between the above-mentioned three kinds of strategies of management, based on which can give a clear direction to China's freight forwarding enterprises.

By making comparison between business strategic analyses, conclusion is that the strategies adopted by CFFC are ambiguous but the business strategies used by KFFC are in a sense comparative quantification and the strategies used by CFFC are with lower levels of technological content and have been outdated. As for KFFC, the business strategies are more quantitative and conform to the trend of the development of science and technology.

3.4 Conclusions through above comprehensive comparisons

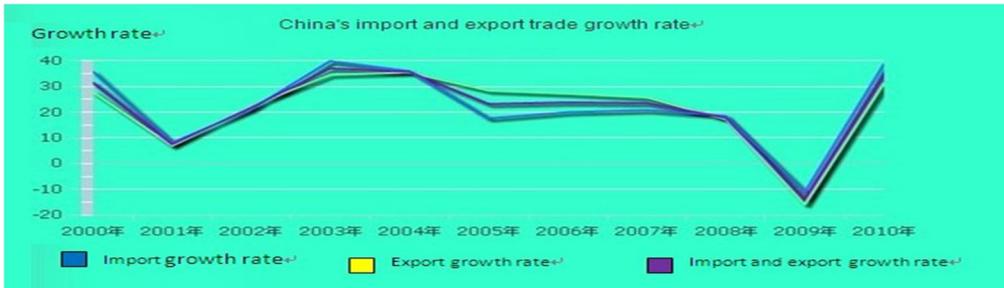
Through comparison among development phases and growth status as well as comparison between strategies such a conclusion can be reached that freight forwarding companies of Korea are more developed and prosperous than those of China. Therefore the CFFC could study a lot from KFFC for tiding over confronting difficulties.

3.5 Necessity of learning from Korea

In recent years, in the face of the rapid development of the logistics industry, Korea Government has increased its support for the logistics industry. Information from Korean news Association and the latest World Bank report shows that Korea logistics competitiveness ranked 25th in the world and has become a powerful logistics country. At the same time, since reform and opening up, China's economy has maintained a sustained, rapid and healthy development momentum in order that traditional service mode of transportation has become increasingly unable to meet demand for development of integrated logistics. In such context, How to speed up the development of the logistics industry and to enhance competitiveness of logistics enterprise has become a more and more important topic.

Although the development of China's foreign trade is facing some twists and turns, as the degree of opening-up to the rest world is deepening, China's foreign trade growth is continuous, healthy and stable. The following figure 3-4 shows that the growth trend of China's foreign trade is stable and will have a good prospect as expected, which would inject strong dynamism into the development of China's freight forwarding companies. In other word, as long as CFFC adopt right and reasonable development strategies and make large effort to tide over their current difficulties must have a good future. Figure3-4

Figure3-4 China's import and export trade growth rate



Source:<http://image.baidu.com/>



Chapter 4 Current issues of CFFC and experiences of KFFC

4.1 Analyzing the present situation of CFFC by SWOT model²³

Generally speaking, the development situation of China's international freight forwarding industry can be summed up as those points: small (business scale, asset size), less (Service function, professional talent), weak (competitive force, financing capacity), scattered (service quality, electric network, business order).

4.1.1 Strength

In spite of various disadvantages such as poor capital, weak financing capacity, small business scale of CFFC manifested in terms of human, material and financial resources, but they also have many advantages, such as flexible management, simple organization and strong innovation capability etc.

1) Flexible management

Compared with state-owned large freight forwarding companies, small and medium-sized freight forwarding enterprises are more flexible in operating due to its small-sized scale, less functional department and smaller span of management, by virtue of

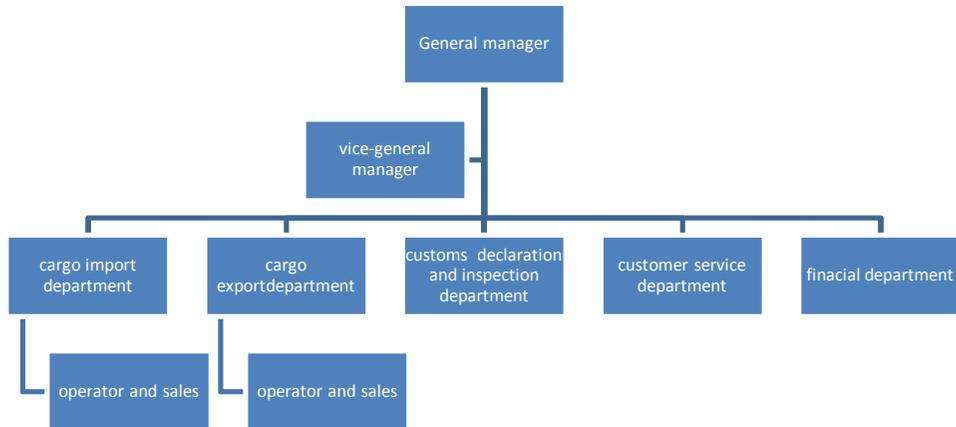
²³ Kuang Lin. Study on the development strategy of middle and small-sized freight forwarding company. Master's degree thesis. Shanghai University. 2010.6. pp7-15.

which they have the abilities to coordinate and communicate conveniently with each other. And they are also capable of adjusting business contents timely according to market requirements and demand and making rapid transformation to meet the market specific requirement. Moreover, SMFF are in a better position to access to markets because they require lower amount of funds and are able to select more management projects.

2) Simple organizational structure and high working efficiency

Relative to large freight enterprise, medium and small-sized freight forwarding enterprises have a simple organizational structure which is conducive to the division of labors within enterprises and promoting collaboration. Furthermore, because of loose organization structure of large freight enterprise, they are more flexible in service management and personnel arrangement. The following is a freight forwarding enterprises organization chart, based on which gives a brief account about that the freight forwarding enterprises have simpler and more flexible organizational structure to adapt to rapid development of market.

Figure 4-1 Internal organization of a company



Source: Organizational structure chat of BangDa Freight Forwarding Company

3) Innovation and continuous improvement

Innovation is the life force for an enterprise. Domestic enterprises have more driving forces to stimulate people's pioneering spirits and inspire individual creativity because of having independent, flexible and strong interest constraints. In the case of conditions permitting, they would have more business innovation and market development ability.

4.1.2 Weakness

As to freight forwarding industry, the problems can be known as follows:

- 1) Narrow market scope, lack of service network and single service means

The service scope of the most of freight forwarding enterprises in China is only confined to provide canvassing, booking space, customs declaration, inspection and other services. And only stays at the concept of agent level and do not have capability of offering independent value-added service. Once these patterns were broken they would very easily be abandoned by shipping companies and shippers.

2) Scarce of talents

According to statistics China has about 300,000 employees who are working in the freight forwarding industry, but the personals who received formal trainings are very few. In order to meet the needs of the developing market, relevant departments of the State have officially launched the international freight forwarder qualification certificates in early 2002 with a purpose to developing and training a large number of market-much-needed international freight forwarders and standardizing the training works of the international freight forwarding business. Additionally, relevant departments also asks for spending three years to educate practitioners in freight forwarding industry in order to let them achieve qualification certificate after exam. The first national examination was held on 15th September 2004, at that time there are more than one million candidates took part in it. Although this initiative, in the long run, will help settle the problem of manpower shortage, but in short term, the problem of shortage of talents is still one of the greatest bottleneck in holding back economic progress. Experts predicted that Shanghai, the most developed city of the international freight forwarding industry in China, will need at least 600,000 people

within the next 5 years. Unexpectedly, the qualified freight forwarding staffs in Shanghai are less than 10,000 by now.

3) Unreasonable Profit mode

Bid-offer spread and booking commission was always the main source of income for China's freight forwarding enterprises for a long time. With the freight charge to be opened to the public, making profit from price difference is basically impossible. This is because that shipping companies mainly rely on our own forwarding agencies to seek goods, as a result, it has become very difficult for an independent freight forwarder to receive commissions from carriers.

4) Not reasonable market order

Presently, majority of the freight forwarding enterprises belong to small-sized enterprises, but at the same time, there are still a mass of illegal freight forwarding enterprises existing in the market. Because these illegal enterprises are able to meet the needs of some the shippers so as to stand firm in the market and make the competition in freight forwarding market more fierce. The living spaces of legitimate freight forwarding enterprises are getting smaller and smaller.

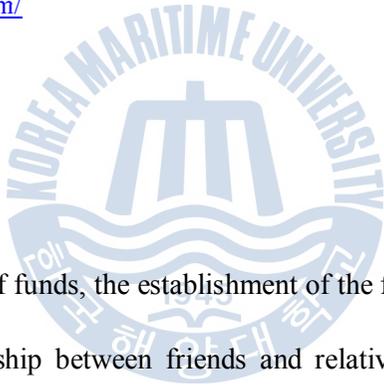
The following chart is used for introducing the average life expectancy of SMEs of some major countries in the world, which shows that China's average life expectancy is much

lower than those of SMEs in developed countries. Mainly it is as a result of irregular market order.

Table 4-1 Average life expectancy

Nation	China	Japan	America	Europe	Korea
Average life	3.7	12.5	8.2	12.5	12.3

Source: <http://www.cnstock.com/>



5) Imperfect legislation

Owing to the limitation of funds, the establishment of the freight forwarding enterprises is usually based on partnership between friends and relatives. But it's very difficult to obtain long-term development. If making a close comparison among partnership enterprises, corporate enterprises and sole proprietorship enterprises, such conclusion can be made that partnership enterprises are the most difficult in developing and expanding themselves. The main reason is that with the passage of time, some irregularities of partners will generate various contradictions between the partners, so as to lead certain partial partners to exit or dissolve from the enterprise as a whole. According to statistics now the lifespan for SMEs in China on average is 3.7 year, there is still a long way to go for China's SMEs to approach the level of developed countries. Although, the regulations

on administration of the freight forwarding industry of People's Republic of China was issued in June 1995, it only has provisions about what allow international freight forwarding agents to do and what not to do, rather than providing a punishment method and even does not stipulate some obligations that freight forwarding business should observe in terms of canvassing tools, commission distribution, rate standard, the specific time of issuing the Bill of lading and so on.

4.1.3 Opportunity

1) Macro environment

Opportunity is mainly from that the freight forwarding market's capacity which would be enlarged as China has been a member of WTO. It has close connection with the development situation of the world economy and international trade. When the economy lies in a period of rapid growth, international trade will be promoted and accompanied by active scenes of prosperity in freight forwarding market. Since China joined WTO, the international trade volume has been greatly improved. According to customs statistics, about 80% of international trade is completed by ocean shipping. There is no doubt that the improvement of international trade in scale will expand the freight market demand and give each company in the industry more opportunities.

2) The trend of international trade

Below is the import and export statistics data in the past 10 years according to the Shanghai customs' statement. It shows that import and export business in Shanghai port have appeared an upward tendency since 2000 year. According to the report on researching China's foreign trade prospect announced by Shanghai customs, the integration degree between China and the world economic is deepening; external influencing factors in the international trade development are gradually increased. At the same time, after the party's 17congress, China's economic reform cause is still at a critical stage. With the deeper contradictions gradually exposed, the internal factors influencing China's foreign trade would become more complex and complicated.

Table 4-2 Shanghai container throughput statistics

year	2003	2004	2005	2006	2007	2008	2009	2010	2011
Throughput (Ten thousand TEU)	1128.2	1455.4	1808.4	2171.8	2615.2	2800.6	2500.2	2906.9	3170

Source: Shanghai yearbook

3) Entry threshold was lowered

From the perspective of registered capital, the lowest registered capital is 5 million RMB for managing maritime international freight forwarding business, management of aviation freight forwarding business should be involved in a registered capital of 3 million RMB in

minimum and operating land international freight forwarding business or international express business the minimum registered capital is of 2 million. Take a look from the registration time, now registered as a freight forwarding company only need to register in the present case, it would only take a month or so. See from the perspective of establishing conditions, managing freight forwarding enterprises need at least three employees and no longer refer to a work experience limit, which will intensively lower the entry threshold and accelerate rapid development of freight forwarding enterprises.

4.1.4 Threat

4.1.4.1 Several negative phenomena in the freight forwarding industry

1) Fly single

The world “fly single” is technical term which often used in foreign trade and freight forwarding industry. In the freight forwarding industry, fly single is referred to that a salesman keeps business which should be operated in his own company transferred to other company only for the purpose of making extra commission. In the freight forwarding industry, the commission paid to a salesman is normally in accordance with the business gross margin, the ratio is generally between 15%-50% of gross profit. Nevertheless, if deals with cargo transport through "fly single" mode, the profits resulting are usually at between 90%-94% (deduct certain taxes). By contrast, for a salesman, the income by "fly single" mode is much higher than that got from his own company.

2) Rebate and commission

Rebate and commission generally turns up in two areas, one is in factory of importer or export, the other appears in salesperson of shipping company or a person being in charge of allocating shipping routes.

For the import enterprise, this phenomenon is usually in connection with some of salesmen and shipping staffs. They allocate some goods to freight forwarders and then freight forwarders draw out a portion of profits from the sea freight profit and give it to the foreign trade salesman. For example, in Qingdao area, the general rebate is more than USD30/TEU. For companies, although some of the costs incurred, but the freight charge is still within a reasonable level. Apparently the costs cannot be outlaid from banks as normal business expenditure, but be refunded in the form of cash. So this company must make a reasonable arrangement for expenses and at the same time need to take risk as a result of refunding commission. As a matter of fact, foreign trade salesman takes kickbacks rebate is a very common thing.

In addition, shipping route clerk is exposed to another major flow of touching kickbacks; the kickbacks are mainly from freight forwarders. In order to get a good price and accommodation, Freight forwarders will cost some money and energy to maintain good relationships with ship-owners, but not each and every shipping route clerk is able to get this opportunity. Generally if shipping route salesmen have real power in their hands and the power in their hands is great enough, sometimes the following things will occur: shipping route clerks cooperate with freight forwarders asking some small customers to arrange their consignments by appointed freight forwarders. Or, quoting high price to

external and let freight forwarders go out to help them for cargo collection. In fact, they would furnish a much lower price to this freight forwarding company and then ask the freight forwarder to provide a certain amount of fees as per each container. The amount of single box is not high but only dozens of RMB. But on account of huge amount of exports every week, the figure is very large on the whole.

Obviously, since freight forwarding enterprises' management system is not rigorous, the above two kind of phenomenon will result in additional overhead to the enterprise. No doubt this is a resistance in fostering the development of freight forwarding enterprises.

4.1.4.2. The impact of the financial crisis on freight forwarding enterprises

In the year of 2007, the subprime crisis broke out in the United States, and then the ensuing financial turmoil eventually triggered a global financial crisis in 2008. Up to now, the financial crisis is continued to spill over into the real economy. The impacts of financial crisis on freight forwarding enterprises are mainly including four-fold.

1) Business Volume declined

The impact of the international financial crisis on China's imports and exports began to emerge in the third quarter of 2008, as in the previous three quarters mainly completed some export orders received prior to the financial crisis. After the burst of the financial crisis, the volume of foreign trade orders received by domestic enterprises was suddenly

tumbled to an unexpected level.

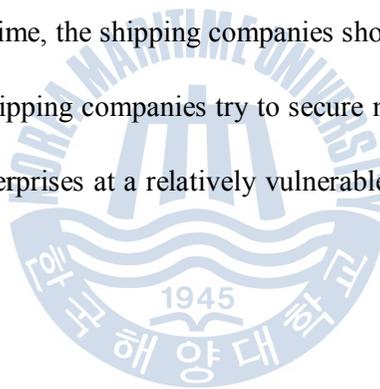
Customs analysis reports has shown that China's exports in the previous three quarters of 2008 increased by 22.3%, growth rate fell by 4.8% compared with that of the same period of 2007. The growth rate of bilateral trade between China and the United States was decreased from 16.2% in the same period of 2007 to 12.8%. The deceleration of China's exports to the United States was result from the negative impact of the subprime crisis and the persistent appreciation of the RMB against the US dollar.

2) The risk of freight settlement increased

In the case of the financial crisis, the collapse of the big enterprises will drag down a great number of small businesses and raise the risk index of freight settlement for freight forwarding enterprise. If a freight forwarding enterprise failed to make an enough evaluation on the credit of customers and chose customers with poor credit, when the customers are unable to perform the contract that would bring losses to these enterprises. Or, at the beginning of signing the contract, the freight forwarding enterprise is not aware that the customers are liars who want to cheat out of their goods. If such kind of things happened, it would cause economic losses to freight forwarding enterprises. When it comes a freight enterprise, if a large sum of freight cannot be repaid in a timely manner as stipulated in the contract, certainly it will affect capital flow and lead to management difficulties

3) Financial pressure increased

On account of such integrated factors as the appreciation of the RMB, tightening national monetary policy and declining enterprise profit have adversely affected the survival of the freight forwarding enterprises. These issues such as insufficient development funds, cash flow difficulties, increased interest costs and others would become more obvious and prominent in the small and medium enterprises. As revealed by insiders that freight forwarding enterprises are encountering double pressures, Shippers put off payments one after another and extension up to 50 days with freight forwarding enterprises, yet at the same time, the shipping companies shorten the payment period to 15 days. When Shippers and shipping companies try to secure more space for their own cash flow, freight forwarding enterprises at a relatively vulnerable position have to strenuously struggle in the slit.



4) Competitive pressure increased

Price spread and commission are the main sources of income for freight forwarding enterprises. Along with the rate of the public, making profit from price spread is basically impossible. Especially since the outbreak of the raging financial crisis, competitions among enterprises have become more and more fierce. Some freight forwarding enterprises, logistics enterprises in order to strive for customers, have launched a price war at a rock bottom price. In addition, foreign logistics companies entering the Chinese market is also making domestic freight forwarding enterprises suffering enormous challenges.

4.1.4.3 New challenges

Since China's accession to the WTO, up to the year of 2005 China's freight forwarding industry has been completely opened to the rest of the world. So, the freight forwarding enterprises are facing new challenges which can be outlined in the following two points:

1) Shipping company sets up its own freight forwarding companies.

Now, most of shipping companies have already set up their own logistics companies, for example, MAERSK LOGISTICS, CMA LOGISTICS and so on. These logistics companies almost played all the role of freight forwarding companies from canvassing, booking, customs clearance, and to the entire maritime transport. By virtue of the shipping company's good prestige and strong financial strength, they have established their own branch networks in opening coastal cities and canvassed a large quantity of goods from large customers' hands in the freight market. In comparison, the strength of domestic logistics companies seems especially weak. In particular in the increasingly competitive environment, their living space seems to be in jeopardy.

2) Foreign freight forwarders entering China

While shipping companies establishing their own logistics companies, foreign freight forwarding companies also moved into China with a fast speed. They changed the previous office into wholly-owned or joint-venture subsidiaries. Foreign freight forwarding

companies not only have talent, technology, funds and other advantages but also have a sound corporate governance structure and management experience. Relying on developed network channels, they are able to obtain bigger territories in China's freight market.

4.2 Experiences of KFFC

4.2.1 Experience and measures taken by KFFC in resolving the service network issue²⁴

1) Construction of intelligence system

Logistics Companies can be divided into several fields according to its business scope but generally they are all through taking advantage of electronic network in handling fiancés issue, issuance of bill of lading, shipping documents and other business related to container management. Besides, in Korea, some businesses in connection to B/L, commercial invoice and notification of arrival have all realized electronization.

In realizing electronization and informalization first and foremost, should not skimp on investment and second to actively work with bank, shipping company and container terminal, port and so on to fully get a good grasp of the situation over cargo's transportation, inland transport schedules and wealth management. And for fulfillment of wide range of information obtainment, integrated transportation and management, statistical analysis of performance, cost calculation and partners' accurate estimation, it is

²⁴ Seon-Won Lee. A Study on the Promotion of Freight Forwarder's Business in Korea. Master's degree thesis. InHa University. 2007.2. pp70-80.

necessary and imperative to construct comprehensive information system.

Freight forwarding business specialization is closely associated with the flexible use of information technology and information system and prompt reaction should be made to CALS, EDI, ECR, QR, POS and other new information technologies with a view to build a compatible information system matching all cargo owners' needs. The other hand, that is through Organic connection among manufacturing enterprises, Transport enterprise, storage enterprises to improve construction of intelligence network. Finally comprehensive logistics information network can be efficiently constructed so that it cannot only connect ocean transport, air transport railway transport but also connect other business such as customs clearance and trade.

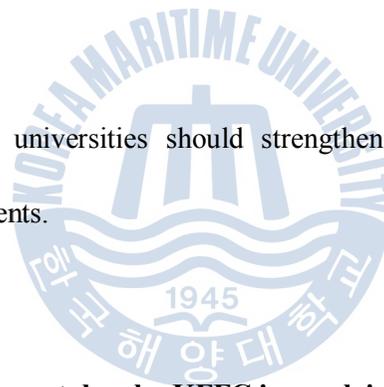
2) Measures for constructing comprehensive information network

Construction of integrated logistics information system is important factors in improving international competitiveness, especially under the circumstance of highly developed intelligence, which has played a very import role in improving profit of logistics companies. Say from the perspective of freight forwarding enterprises, it is prominently shown as collecting information which is in close connection with transportation, warehousing, loading and unloading, packaging. Thus construction of integrated logistics information system is very important. On the construction of integrated logistics information network, several main points are as follows:

a) Government needs to give full play to the macroeconomic advantage, strengthening

the role of organizations to speed up the construction of logistics information network system.

- b) Corporations need to actively build up its own logistics information system, improve the level of enterprise informalization, realize end-to-end joint with other logistics information network system.
- c) Industry Association usually acts a part of bridge and link between enterprise and government. Traffic, transport and logistics associations and other related industry associations should actively participate in the construction of logistics information network system.
- d) Government, industry, universities should strengthen their education targeted at training information talents.



4.2.2 Experience and measures taken by KFFC in resolving the issue of lower service level²⁵

Freight forwarding company without special hardware is merely reliant on software for operation, so the clerks are treated as the most valuable assets. As the professional freight forwarders before providing service to customers, they should pay more attention to their industrial education. The following deserves close attention.

- 1) In terms of staff recruitment, the focus is the examination to applicants' values. The

²⁵ <http://www.jobcn.com/hr/detail.xhtml?id=20177>. Measure about resolving the lower service issue.

obtainment of these applicants' values are in accordance with corporations' core interests. So when hiring personnel close attention should be paid to these people who at least have an important value standard of the enterprise, that is to say, the individual needs of those people are easy to be fulfilled in the work of the organization. Only by doing so, can the common values can be set up within corporation.

- 2) The training of staffs. For providing professional education for employees on corporate values, leaders of corporation should give a detailed introduction about the values and spirit of enterprise culture and enterprise behavior, norms and describe the vision of enterprise for employees in a clear way, to show employees their tireless pursuit of the goal of enterprise value and sacrifice spirit, give high expectations for staffs to raise employee recognition and acceptance of the corporate values, so as to become them turn into employees' voluntary pursuits
- 3) Fully authorized in the actual management activities, emphasizing the master status of the staff, rely on and trust staff, encourage employees to release their wisdom, experience and creativity to a limit , allow employees in part to participate in making plans of development and handling of certain things concerning their core interests.
- 4) Personnel's preferment. Corporation values can consolidate employees ' personal values and also personal values would in a sense react up on corporation values. only take job performance as standards to measure and promote employees to a high office,

which would not create opportunity to that people whose values are not in keeping with enterprises even have confrontation with corporation's that will exert adverse impact on common values. Therefore, promotions of personnel must be generated from those persons who not only agree with corporation values but also have a good work performance. Only by doing so, can ensure promotion of personnel not only reach the goal of enhancing business performance but also firmly consolidate corporate values.

- 5) Incentive and distribution system is the final way for fulfilling employees' values. Only in this way employees can feel real benefits in sharing the corporation values and be willing to act as a basis for further enhancing common values and faiths. As for the goal of enterprise value management activities, it is determined by a series of management activities and coordination of common value orientation of employees and companies, the degree of consistency, because a high degree of coordination, that means being invisible to strengthen the identity of employees on the value of enterprise objectives. Some methods used in some enterprise management such as performance tiered system, employee stock ownership, employee stock option distribution systems, these systems make employees feel the recognition and support of enterprises, strengthen employees' awareness of individual relationship with the business community, is good to build Common value faith between staffs and enterprise.

4.2.3 Experience and measures taken by KFFC in resolving the issue of difficult financing²⁶

KFFC in their phases of start-up, growth and development are also puzzled by some problems with respect to difficult financing. As it was said by Consul Jin Zhangnan of Korea Consulate in Guangzhou that the issues KFFC confronted are similar to China's. However, Korea in terms of supporting small and medium enterprises development, has created new models which perhaps worth of our reference. Through "People-officer cooperation" in resolve the difficulties of difficult financing.

It is understood that in times of rapid economic development over the past, Korean small and medium enterprises were mainly responsible for outsourcing business with large enterprises, and achieved development under the protection of policies; this coincided with the development pattern of China's small and medium enterprises. The rapidly changing global business environment made Korea's SMEs faced with how to strengthen international competitiveness of SMEs and how to walk out of the domestic market issues. Obviously, this model is not suitable for the current market situation any longer. To this end, the Korea Government had changed its unilateral support policies into through competition and cooperation between large corporation and SEMs to enable SMEs have more dynamism. This mechanism was promoted to establish through people-government cooperation specially efforts to increase the involvement of civil society institutions and give full play to their resources and capabilities to enable SMEs be able to improve

²⁶ <http://finance.sina.com.cn/roll/20081013/10072459124.shtml>. Experience of resolving the issue of difficult financing in Korea

competitiveness through market regulation function independently and continuous development. At the same time, government in order not to affect the capacity and autonomy of civil society institutions, do not take the form of direct intervention, but playing a role for supporters and partners. For example, SMEs in the growth phase the biggest challenges is the issue of financing. So, the Government, through cooperation with the private financial institutions increased financing support for SMEs in particular SEMs having outstanding technical capabilities.

Korea Government in order to promote private finance institutions "technology financing", started in 2006 to strengthen civil society's technical evaluation capacity, design and popularize the evaluation model for enterprise technology. By the end of July 2008, there has been 300 billion won of funds from private financial institutions invested to technological innovation-oriented enterprises including freight forwarding enterprises on the basis of assessment report of civil technology institution. In future, Korea government plan to adopt more sophisticated technology-assessment model to expand the technology financing of private financial institution. Now Korea also plans to introduce co-finance system namely the revitalization public mission of Korean small and medium enterprises (SME policy financial institutions with feasibility evaluation capacity) to provide loans in the form of credit and at the same time folk banking (with financial evaluation capacity) provide matching funds to support, through a variety of cooperation to strength support for the financing of SMEs.

4.2.4 Experience and measures taken by KFFC in resolving the issue of lack of talents²⁷

Korea enterprise human resources development varies with the change of labor demand accordingly. With the change of industrialization strategies, the career training has moved its way in a direction conform to the tendency as “simple labor source, industrial labor, high skilled workforce.

4.2.4.1 Human resources development policy

- 1) In January 1967 with the beginning of Korea’s industrialization, Korea government promulgated the first law on vocational training.
- 2) In December 1973 Korea formulated” technical qualification law” to make “vocational training law” be fully put into practice.
- 3) In December 1976 Korea laid down the basic law on vocational training. According to this law training within the enterprise achieved compulsory so that gave a strong boost to the human resource development and also played a fundamental role in economic development of Korea.
- 4) In April 1989, Korea government formulated the Skills Award Law with a view that to overcome phenomenon of the high degree of labor resources and the fast increasing number of young people who not only cannot admit into colleges and universities but

²⁷ <http://www.jobcn.com/hr/detail.xhtml?id=20177>. Measures in resolving the issue of lack of talents

also are not willing to engage in skilled work. The formulation of the law has paved the way for encouraging skills talents growth adapts to the industrial development.

- 5) In July 1993, formulated vocational training reform promotion plan. In the plan has weakened the influence of government in leading vocational training and enlarged and consolidate the leading role of civil.
- 6) In December 1997 formulated the law on promotion of the workers ' vocational training, which has combined the former employment insurance systems and capacity development binary system. this law to pre-service training of students, the unemployed and businesses labor training all offered a common training and development measures.
- 7) In January 1999, the implementation of the workers ' vocational training Promotion law, repealed the compulsory vocational training and the vocational training promotion fund, which has played in large role in activating the training market training of Governments, civil society groups, promoting the participation of employees and enterprises both sides in professional capacity development, particularly supporting human resource development of SMEs

4.2.4.2 The major measure and steps in creating talents can be shown in the following three areas

- 1) The system of professional qualifications. To promote the implementation of basic

law on vocational training, Korea freight forwarding industry as early as 1976 has made out the vocational qualification certificate system. Through the management of vocational qualification to set a clear standard for the selection of talent.

- 2) Combine governments, corporations and universities forming a Government-led corporate-sponsored, university- researched mode and corporations fully provide convenient conditions for university students' social practices and employment. Besides, in order to encourage recent college graduates will be absorbed by the civil enterprises, the government will provide 6 months of wages. If these graduates will be hired by SMEs, governments will provide 6 months of two-thirds. This move has shown the Korean governments made utmost efforts to encourage employment of graduates because these graduates have diversified knowledge and maintain social stability.
- 3) Perfecting the enterprise training system, attach importance to ethical education and enable the new staffs have specialized counseling, because in this way can promote improvement of ability of staffs who is scarce of capacity.

4.2.4.3 Experience and measures taken by KFFC in resolving the issue of narrow business scope²⁸

Virtual Enterprise is a new type of survival mode for enterprises in western developed countries. So-called virtual enterprise refers that a complete set of economic activities are

²⁸ Seon-Won Lee. A Study on the Promotion of Freight Forwarder's Business in Korea. Master's degree thesis. InHa University. 2007.2. pp67-70.

not operated within only one enterprise, but worked together by different functions and multiple locations of partner enterprises as a part of the Strategic Alliance. Various social organizations involved in virtual enterprises should have profound knowledge on the entire economy in operation activities undertaken by the virtual enterprise in order to facilitate coordination of each other's behavior. The generation of virtual enterprises is in line with miniaturization of enterprises on the international scene in the past 10 years and also in keeping with basic trends in forming a Business Alliance. This kind of miniaturization tendency is not only in favor of making agile reaction to enterprises on the market but likely to reach the benefits brought due to scale management. Due to scattered business of Korean freight forwarding enterprises, this kind of strategic alliances has been widely used in Korea's freight forwarding industry.

As far as the establishment of strategic alliance is concerned, two points have to be taken into consideration. The first point is alliance should be formed with overseas excellent company. But actually, due to scattered management, it is very hard to form alliance with overseas companies. The other point is domestic inter-firm alliances, especially with companies having same or similar capital scale and scale of operation. It could not only provide a higher level of transportation service to the owners of cargo in the future but also increase the efficiency of delivery to reduce freight costs because it could ensure similar to ensure to the maximum extent owned property of alliance members and through the construction of the Union it can also maintain the high efficiency of the delivery service level even if the enterprise's structure is maintained as previous, such as the sharing of transport, common use of accessory equipment and so on. The success of this alliance

depends on mutual trust and smooth exchange of information.

4.3 Case about China-Korea “4+1” Port Strategic Alliance²⁹

On June 8, 2010, with the decision by Shandong provincial government, hosted by provincial Transportation Department and Qingdao Port as a contractor, the first “joint conference on strategic alliance among Qingdao port, Rizhao Port, Yantai Port and Weihai Port in China and Busan Port in Korea was remoniously held in shangri-la hotel of Qingdao. The five ports formally signed the “Sino-Korean 4+1 article on Port Strategic Operation” with an eye to working together to build a logistics hub and shipping center of Northeast Asia. The success of the first Conference held marked the “4+1” ports cooperation model promoted by Shandong provincial government was officially launched, which has created important preconditions for promoting the construction of economic zone of blue peninsula, accelerating the process of Sino-Korean free trade areas and building regional economic growth in Northeast Asia.

Economic globalization of the world economy and the integration of supply chain management of logistics are profoundly affecting the development pattern of port economy. China’s Qingdao Port, Rizhao Port, Yantai Port, Weihai Port and Busan port in Korea as important configuration platforms of regional economic resources in North-East Asia are not only profoundly influencing the development of international shipping industry but also playing an indispensable role in promoting regional economic growth in Northeast

²⁹ <http://www.dzwww.com>. About introducing the strategic alliance of “4+1” model

Asia.

It was understood that on November 23, 2010, under joint efforts of all parties concerned the framework agreement of strategic alliance has been signed which was not only aimed at advancing complement with each other, promoting harmonious development and achieving win-win or all win results but also laid a solid base for forging ahead "4+1" port logistics operation integration.

The article on Sino-Korean "4+1" port strategic alliance operation was mainly involved four folds. First, it set out that the five ports would draw upon respective geographic advantage to provide preferential, convenient and high-efficient logistics services to ships and cargoes of each other and press ahead with the development of international transshipment of container and so on. In a joint effort to carry forward the construction of logistics hub of Northeast Asia. Second, it was focusing on developing the program on automobile transport of goods in Sino-Korean land-sea multimodal transportation, continuously optimizing logistics model to achieve the increase in goods of import and export. Third, discussed and researched the development of luxury cruise ship commodity between ports in Shandong province and Busan port of Korea. Forth, it highlighted the construction related to low carbon technology, information technology and intellectualization and strengthened the discussion and cooperation with respect to core technology in harbor construction and operation and security management of port and so on.

At the same time, provisions in the statutes, bodies of work, interaction of the joint high

level meeting, guarantee mechanisms, project promotion, senior consultant, ensure cooperation of scientific and highly efficient operation

At the same time, it also stipulated other important aspects concerning high-level talks, operating mechanism, interactive communication, project propulsion, hiring senior consultant and others to ensure the cooperation of all parties concerned to be able to make a big stride forward in scientific and high-efficient way.

It was learned that the port throughput in Shandong province had topped 925 million tons in 2010; ranked number two in China. Shandong province was the only one in China which has three ports exceeding 100 million tons. Busan of Korea is the largest container port in Korea, the container throughput in which has completed 14,183 million TEU in 2010, accounted for 74% of total container throughput.

The president of Qingdao port group Chang Dechuan has comprehensively elaborated on the prospect of alliance development from the following three perspectives; namely, promoting inclusive development is our common choice, accelerating Northeast Asia modern logistics hub construction is our common responsibility and building harmonious development of strategy Union is our common pursuit, and stressed that the ports in various ports of the world had developed from regional cooperation gradually into international cooperation. The essence of “4+1” cooperation was to create a higher level of strategic alliance on international development platform. The five ports of two countries would unite more closely, combine with more understanding and pay more attention to deal with everything surrounding ports very well and enable the five ports to develop more

fast and forge a new highlight of blue economy and create a better tomorrow in North-East Asia region.

Equally, such cooperative model also applies to China-Korea freight forwarding companies. Freight forwarding companies in China and Korea can also form strategic alliances to expand scope of market and service on the basis of resource sharing so as to achieve the ultimate goal of creating more profits. In such cooperative model of “4+1”, the most important and far-reaching factor determining the success or failure of formation of alliance lies in the high-level complementarities between these two countries’ ports. It is the same to freight forwarding companies of China and Korea for which to form strategic alliances, first need to select partners. Only those companies whose resources and management strategy are being considered as complementary are entitled to be selected as partners.



Chapter 5 Implication of KFFC's experiences to CFFC

Through Analysis of the track of Korea logistics industry development will bring many useful lessons to accelerate the development of freight forwarding companies in China. Moreover, after joining the WTO, China has speed up its pace of internationalization and China's giant market attracted much attention of the international freight giant of all countries. At the same time, some Korea's logistic enterprises also seize the opportunity to enter the China market, such as HanJin logistics and Daeseung logistics.

5.1 Application of measures and experience of KFFC in China

5.1.1 Strong policy supports

The development of China's freight forwarding industry is in the primary stage. It is not enough to rely only on their own efforts and also needs governments and industrial associations to support and promote. In addition to create a good external environment for enterprises development, what they need more is policies supporting. First, establish and perfect some appropriate policy and regulatory system as soon as possible, as well as industrial standards, enable the development of freight forwarding enterprises to have law to abide by. Secondly, launch and work out preferential policy, enables enterprises to develop rapidly. Third, give play to coordinating function and make the freight forwarding industry be reasonable in space layout to avoid repeated construction

and waste of resources, promote the orderly development of the freight forwarding industry. Four is to introduce a certification system with a higher starting point.

5.1.2 Enhance credit consciousness

As for China's freight forwarding enterprises, what do they rely on in their business operation is good reputation and business standing, credit is the lifeline of freight forwarding enterprises. Compared with developed countries, the mutual trust between enterprises in China is obviously inadequate, which is one of the root causes of lagging development of freight forwarding enterprises. In resolving this problem, freight forwarding enterprises must press ahead with establishment of credit awareness, improve the enterprise's reputation, especially in the era of e-commerce, sometimes in business dealings with customers often do not require face-to-face communication. In such context, mutual trust between freight forwarding companies will in part increase possibilities of cooperation and the establishment of supply chain system. Only good cooperation relationship based on credibility is established, can "win-win" results be achieved in business operation.

5.1.3 Implementation of talent priority development strategy

Compared with logistics developed countries, China not only has difference and falls behind in equipment, technology, funding, but more importantly in perceptions and knowledge, therefore, what should China do is to enlarge education inputs to the freight

forwarding company employees. Given education inputs, there are four points are very important I think. First one is to increase the proportion of logistics education in college and other higher education, turning out versatile talents who are able to integrate enterprise management, international shipping, and international trade with each other and exercise unified management. Second is establishment of a training fund project, such as strategic logistics talents training project. Third, vocational training, provide logistics knowledge and business training for employees, improve the overall quality of enterprises. Fifth, Promote integration processes in government, enterprise and university. Government can provide funds for schools to study and research logistics projects and then sold it to enterprises. Businesses can also sign a talent contract with schools so that those students who have professional knowledge can easily find work after graduation.

5.1.4 Using the latest technology of network information system promote research and development of logistics technology

Informatization degree is one of the important indicators in measuring modern logistics enterprises. Some transnational logistics companies have "one flow three networks" namely (order information flow, global supply chain networks, global network of user resources, computer information networks) of information network system. Through the use of information technology, freight forwarding enterprises cannot only optimize business processes, but also establish an efficient communication mode with consigner's company in order to be able to timely access to information and timely provide services.

Korea has a certain advantage in IT technology; freight forwarding enterprises take advantage of this technology and form a symbiotic relationship interdependent market with consignor's company.

5.1.5 Niche strategy and take competition policy

For small and medium freight companies, existing industry competitors are large State-owned enterprises, Sino-foreign joint venture freight forwarding companies in the same area in the same operating way. They have a complete national network, large scale, strong financial strength, mostly in the cause of transition to a third party, the fourth party logistics enterprise and actively engaged in integrated logistics services. In this regard, the Chinese freight forwarding company can be tailored to customer needs provide a high level of value-added services on the basis of lower service fees, such as logistics solution consulting service.

5.1.6 Improve the level of enterprise's integrated logistics services

Logistics is not simply the flows of goods, supply of raw materials and capital flows, as the diversity of logistics product, it require the freight forwarding company to play an important role in providing comprehensive service as a third party logistics enterprise. Because quite a number of manufacturing companies need to satisfy both domestic demand and exports business, freight forwarding enterprises should have the ability to provide integrated logistics services. In particular, in the case of few freight forwarding companies

in China can provide domestic logistics and logistics service for export. Therefore, in enhancing the competitiveness of the freight forwarding companies, you must increase investment in the financial, services and other areas, to improve freight forwarding companies' comprehensive service level.

5.1.7 Strengthening establishment of Alliance between enterprises

Because the establishment of virtual logistics enterprise strategic alliance meets the needs of development freight forwarding companies, more and more freight forwarding companies have come to establish strategic alliance to increase strength worldwide and it has become a trend and hotspot topic in international industry.

Case in the forth chapter has been referred to Korea- China port alliance of “4+1”model through which every port in both countries is capable to extend its scope of service. Based on experience drawn from establishment of strategic alliance of “4+1”, CFFC should actively go to form strategic alliance with their complementary partners in business so as to improve the quality of services and meet customers' needs. As far as the method for establishment of alliance is concerned, the following 5.2 will give a comprehensive explanation about it.

5.2 Establishment of virtual logistics Enterprise Alliance³⁰

5.2.1 Overview of the virtual enterprise

Virtual Enterprise is a new type of survival mode for enterprises in western developed countries. So-called virtual enterprise refers that a complete set of economic activities are not operated within only one enterprise, but worked together by different functions and multiple locations of partner enterprises as a part of the Strategic Alliance. Various social organizations involved in virtual enterprises should have profound knowledge on the entire economy in operation activities undertaken by the virtual enterprise in order to facilitate coordination of each other's behavior. The generation of virtual enterprises is in line with miniaturization of enterprises on the international scene in the past 10 years and also in keeping with basic trends in forming a Business Alliance. This kind of miniaturization tendency is not only in favor of making agile reaction to enterprises on the market but likely to reach the benefits brought due to scale management.

Virtual Enterprise's basic features are including three points: first, having efficient information management system. Secondly, establishment of stable and reliable network of relationships and treat mutual trust and teamwork as a spiritual mainstay for enterprise. Third, realization of digital for products, enable it to respond faster to the market.

5.2.2 Necessity of establishment of virtual logistics Enterprise Alliance

³⁰ Wang Jiao. Study on the development strategy of middle and small-sized freight forwarding company. Chongqing Jiaotong University. 2010.6. pp30-35

Under the new economic forms, subjects of market competition are not a simple competition between enterprises, but competition between the value chain alliances and competition among enterprises within the Union. Feasibility of formation of logistics Enterprise Alliance

The above analysis demonstrates that forwarding enterprise exist strong cooperation motivation. Similarly, for professional logistics companies account for the vast majority of freight forwarding market also have a strong Union intention. But because their own logistics functions are incomplete, it is difficult to separately undertake large-scale logistics business and unable to meet the logistics needs of one-stop service. Their way of life must be through establishing alliance. Whether after the transformation of freight companies and those are the specialized logistics enterprises, only interdependence can make joint efforts to undertake comprehensive logistics business and confront large logistics enterprises. At the same time, as they all belong to small and medium enterprises and have similar scale, which make them not have capital strength and management capacity to realize mutual merger, to some degree, the formation of logistics Enterprise Alliance has some reality.

5.2.3 Case: Virtual logistics Enterprise Alliance based on internet

There is a private freight forwarding company called Hongxin in Shanghai. It is not large in scale, but extremely flexible. They conducted a detailed analysis of the logistics market, finally reached the following conclusion:

Foreign transnational logistics companies have abundant capital and technology, but

because of the differences in culture and national conditions, they do not know much about China's logistics market and plus too much research on automation, often lead to high costs. Apart from a few very large foreign companies, general enterprises are hard to endure high cost logistics service without return. And foreign logistics enterprises from entering the China market to become familiar with the market need a process, so there is still some time to the domestic enterprise development ; Domestic logistics enterprises want to development into trans-regional third party logistics enterprises and establish logistics distribution networks in the different regions, these all need strong financial support. Due to the decline in industry profits in recent years, as well as the existence of local protectionism, this form of development is relatively limited; another way is to combine some logistics Enterprise with joint ideal and actual strength together form alliance, execute remote collaboration and form a national logistics and distribution system. That is because it is not only in light of actual conditions of regions but able to achieve nationwide distribution under limited funding.

Alliance is a good strategy, but how to unite, by which way to achieve; it is important problem worthy of study. At least, the League should have certain basic conditions:

- 1) Allied enterprise must have close business collaboration, efficient distribution system throughout the country, even alliance cooperation as an internal operation in an orderly fashion.
- 2) The composition of Alliance requires realizing functional and geographical complementation between enterprises.

- 3) Alliance enterprises basically reached the same level of standards in terms of mechanism, information, management, technology and so on.
- 4) Should have reasonable terms of cooperation and supervision mechanism, ensure moral operation of alliance.
- 5) Should have a communication information platform among members.

5.2.4 Method of establishing virtual Logistics Enterprise Alliance

Compared with other specialized logistics enterprises in the Union, the competitive advantages of freight forwarding companies are in relation to the entire logistics chain management and organizational coordination ability. Therefore in the process of establishment of virtual logistics Enterprise Alliance, middle and small freight forwarding companies should strive to strike a core enterprise's position in order to give full play to its competitive advantage. Formation of the Union can be divided into four main stages.

1) Customer logistics demand analysis

Middle and small freight forwarding companies as the core of the alliance enterprise, accept the entrustment of the logistics demand sides as the identity of logistics agent and logistic logistics information to the member of the union by the information platform. All members need to have a thorough analysis of core resources and then decide whether to

participate in logistics Enterprise Alliance and choose in which way to respond the demand from customers.

2) Union models and partner selection

As regards core enterprises set up virtual logistics Enterprise Alliance based on customers ' logistics needs, first and foremost thing is to put design of the logistics model first and determine what type of partners are selected according to the nature of demand based on logistics resources assessment.

As far as selection of Alliance Partners is concerned, first is to seek potential partners who have the resources, and then make a clear assessment to viable partners. After choosing out partners, we need to adjust virtual logistics Enterprise Alliance model according to the capacity of partners and put forward the requirement of process integration. Finally, confirm the final league structure scheme and way for selecting partners. Usually, Principles of partner selection is that:

- a) Principle of core competence: members participate in alliances must have ability to contribute its own core resources
- b) Total cost accounting principles: Total cost of Union operations cannot be greater than the cost of each individual independently
- c) Timeliness principle : Each member company must have rapid market responsiveness
- d) Principles of risk: the Union following the principle of minimizing the risk

3) Design Execution

Design execution includes organization design of virtual logistics Enterprise Alliance, supply of information systems; benefit distribution and coordination mechanism of interests and clear rights and obligations of parties

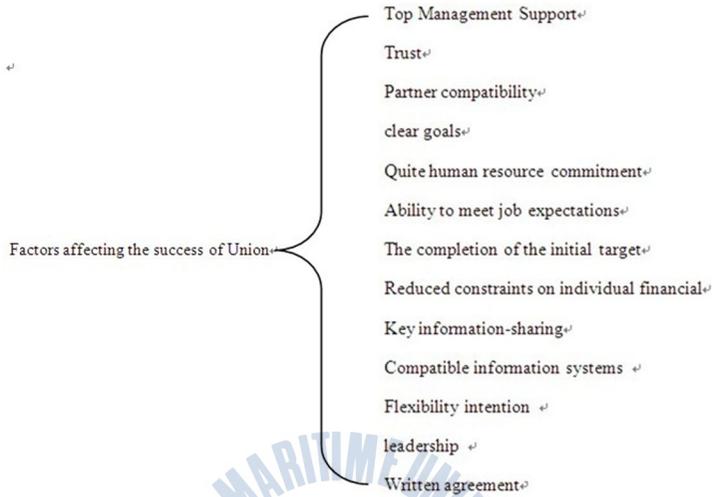
4) Performance measurement and feedback adjustment

With respect to performance measurement of logistics alliance operation, ABC analysis method (Activity Based Costing) and CPM method (Critical Path Method) for time management can be used for performance measurement and feedback adjustment.

5.2.5 Factors determining success or failure of virtual logistics Enterprise Alliance membership management

Experts and studies at the University of Michigan in United States categorize the factors that influence the success or failure of the enterprise Union on the basis of a large number of enterprises surveys and studies.

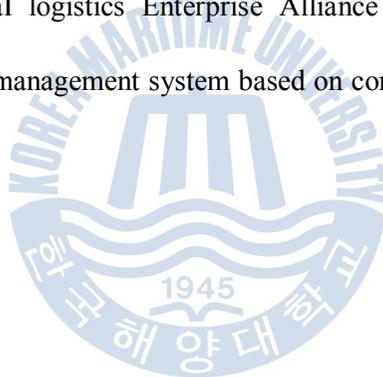
Figure5-1 Factors affecting the success of Union



Source: Kuang Lin. Study on the development strategy of middle and small-sized freight forwarding company. 2004.1.

For freight forwarding companies establish virtual logistics Enterprise Alliance, of course the aforesaid factors determine the success or failure of Union. More specific areas are listed in the table. Through further analysis of above table a conclusion can be obtained that the crux determining the success of Union is member relationship management. As for the core enterprises of Union, Union's core business, the crux of member relationship management is through establishing logistics contract system achieve logistics operation supervision for members so as to the in order to protect the running performance of logistics Alliance. Because virtual logistics enterprise across time and space and organizational boundaries, it is important to take supervisory control over members. For

Member Company of logistics Alliance, during the running of the alliance there are two main acts; one is the completion of subcontract logistics business. The second is to ensure the smooth running of the whole Union, mainly shaped in information communication. For the first Act, in terms of performance assessment, the method of establishing monitoring indicators can be used, so it can be written in the contract. But for the second Act, it is a classic principal-agent problem, it need to be addressed through the establishment of incentive mechanism. Because apart from relying on contract monitoring, management of member companies cannot be separated from mutual trust, trust building has become a major component of virtual logistics Enterprise Alliance membership. By so doing, constitute parallel structure management system based on contract oversight and take trust relationship as the center.



1) Contract supervision

Freight forwarding enterprises as the core of virtual logistics Enterprise Alliance sign contract with demand side for third party logistics services (Namely main contract). On the basis of the main contract, the core enterprises would sign Sub – contractors with partners. One of the main roles is to check the implementation of the logistics business of Alliance members to ensure successful completion of contract.

2) The incentive mechanism of coordination of information

Comes to Virtual logistics Enterprise Alliance, information sharing and communication

is extremely important between core enterprises and partnership enterprises. Simply, coordination of information logistics can make effective arrangements for services between the members of the Union, promoting mutual confidence between the Member companies, increase overall Union's quick reaction capability, and reduce the bullwhip effect. However, Realistic problem lie in that the investment make by the Alliance members for information communication belongs to the assets of a private nature, moreover, coordination sharing would leak Enterprise commercial secrets. As a direct check on the behavior of information coordination are not operable, through the establishment of incentive mechanisms for member enterprises to participate in the distribution of profits is perhaps the best means of addressing information coordination. If there is good information coordination between member enterprises, for the Union, is expected to increase gains. Alliance core enterprise would through the information coordination procuring value-added incomes and Share the value-added incomes with other member companies, so as to achieve incentive to coordinate the behavior itself. As far as the allocation proportion Value-added income is concerned, it can be decided on the basis of efforts made by member enterprises for information coordination and on the basis of bargain power member enterprises have.

3) Trust management of Union membership

Now, China is setting about building a market economy and market economy is, to some extent, the credit economy. Because China does not have a perfect credit appraisal system,

There is a widespread credit crisis between enterprises. With respect to the virtual logistics Enterprise Alliance, it provides logistics services to customers by interaction between members of the League. On the contrary, Logistics service is actually the relationship of principal and the entrusted party and is entirely based on the credit system. And at the same time, distributions of tasks among the members as well as the transfer of logistics services both require mutual trust. Therefore, trust mechanism should be established within the Union.



Conclusion

After China's accession to the WTO, on the ground of the support and encouragement from governmental policies, the logistics industry in China has gained unprecedented development. Freight forwarding companies as an intermediate between cargo owners and shipping companies have also obtained unprecedented development opportunities. But at the same time, CFFC are still facing some twists and turns which is plaguing the development of the industry. As a result, CFFC cannot take full advantage of the opportunity brought by China's economic development to improve their competitiveness. In the meantime, there has been higher development of freight forwarding industry in our neighboring country-south Korea. Their development is mainly due to its earlier starting point and has accumulation of valuable experiences in the development stage. The valuable experiences are worthy to be learned because it can be drawn upon by CFFC to promote its own development.

This paper lists up seven measures CFFC should take in addressing their issues, namely: strong policy supports, enhance credit consciousness, implementation of talent priority development strategy, using the latest technology of network information system, niche strategy and take competition policy, improve the level of enterprise's integrated logistics services and strengthening establishment of alliance between enterprises.

Among these methods and experiences, the most important one is the formation of a strategic alliance, as it conforms to the trend of economic development, which is inevitable

in pushing forwarding the development of the freight forwarding industry. I expect to provide a path for the development of the freight forwarding business in China through this paper.



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