

MADE in CHINA 2.0  
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# Transformation Roadmap for Chinese Exporters

Executive Summary of Made in China 2.0



The “Made in China 2.0” Readiness Index Report addresses for the first time the challenges facing China’s export sector, as the traditional strengths of its “low cost, low value, high volume” strategy show signs of faltering. Although the sector is currently buoyant, with output, new orders, employment and prices charged all increasing year-on-year, China’s manufacturing sector is rightly concerned about the medium- and long-term implications of a slowing domestic economy and declining competitiveness in international markets. The UPS report reveals that faced with these fundamental structural challenges, many Chinese export manufacturers recognize the need to actively plan and prepare for a major shift in the future direction of their businesses.

A perfect storm of negative factors have combined to threaten the basics of China’s golden age of exceptional economic growth. The global economic crisis caused external demand for Chinese goods to decline, while at the same time raw material and labor costs have increased. Higher requirements for product quality and safety have impacted costs and affected demand. New sources of low-cost supply have emerged in neighboring countries, further reducing the market share of Chinese manufacturers. Customer loyalty is far from assured, and relationships between suppliers and their customers can

be precarious when cost is the only factor. It has become clear that reliance on a growth model based solely on low-cost exports is unsustainable and indeed many exporting companies have already gone bankrupt.

For the moment, export manufacturers are generally speaking bullish about the Chinese economy. In keeping with the positive conditions they are experiencing in their businesses, 74% say China’s economy is in a better position now than it was 12 months ago. However, the challenges faced by China’s manufacturers are not cyclical but structural. To remain competitive in the longer term, exporters are recognizing that they need to take advantage of the opportunity to fundamentally recalibrate their business models.

It is against this backdrop that this report looks at the key priorities Chinese export manufacturers need to address in order to maintain their competitiveness and achieve sustainable growth in the ever-evolving global market. We call this new era of Chinese export manufacturing “Made in China 2.0.” The report identifies four key areas for reform that manufacturers need to recognize and then deliver against, if they are to make this transition and thrive in a tougher, more competitive export market.

### The four key pillars that constitute the Made in China 2.0 reform agenda for China’s export manufacturers are:



**Deepen Knowledge and Understanding:** Build a deeper and more nuanced understanding of your customers’ business needs, markets and environment



**Develop Responsiveness and Collaboration:** Elevate customer relationships to the level of true partnership – their success is your success



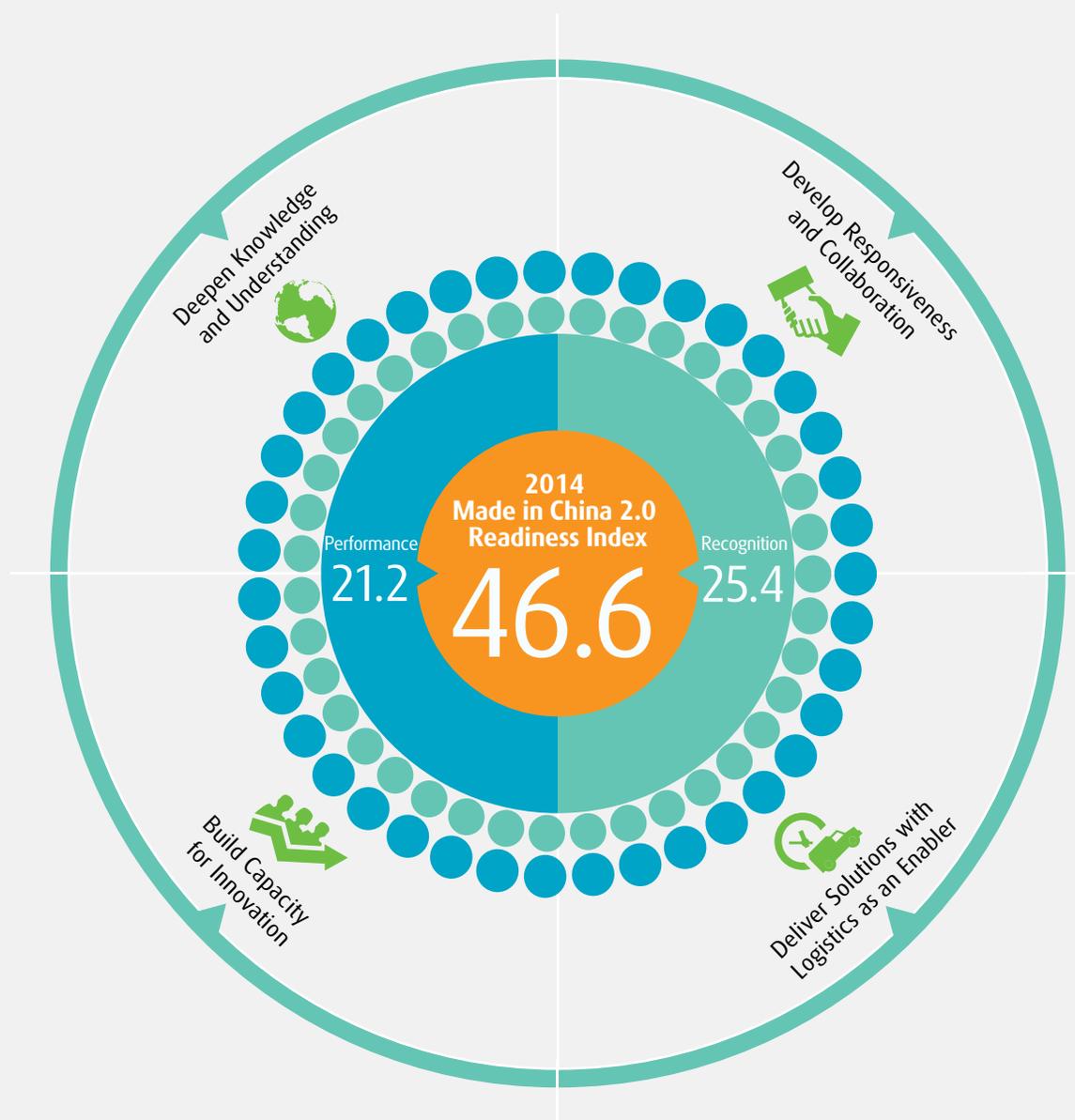
**Deliver Solutions with Logistics as an Enabler:** Use logistics to derive competitive advantage and deliver value



**Build Capacity for Innovation:** Build up internal capabilities for change and corporate strategy

We developed a series of key indicators built around the Made in China 2.0 pillars, and used these indicators to create two linked metrics; a Recognition score measuring the extent to which export manufacturers recognize the importance of each of these priorities; and a Performance

score measuring the extent to which they were currently performing these tasks. The outcome is the Made in China 2.0 Readiness Index, calculated by combining the Recognition and Performance scores.



## “Made in China 2.0” Readiness Index

To measure exporters’ readiness for this new era of manufacturing, UPS and Caixin Media Group jointly conducted interviews with 1,000 senior decision-makers across China as well as four in-depth case studies with export manufacturers in Shanghai, Shenzhen, Qingdao and Chengdu. The Made in China 2.0 Readiness Index Report looks into China’s export-oriented manufacturing industry in transition, discusses in detail the opportunities and challenges facing it, and analyses the findings of the survey to assess how well exporters are positioned against the key priorities for sustainable competitiveness and growth.

As unearthed in the survey, Chinese export manufacturers scored 46.6 out of a possible 100 (25.4/50 for Recognition score and 21.2/50 for Performance score). The results suggest that there is much work to be done to ensure that Chinese manufacturers are prepared for Made in China 2.0. Across all key priorities, Performance lags Recognition, suggesting that export manufacturers are highly aware of the necessity and urgency of the transformation, yet finding it challenging to prioritize and implement the required changes across their organizations.

The survey segments respondents into three groups, based on their performance on the Index: Leaders, Followers and Laggards. The Index identifies companies best placed to shift to the next iteration of Chinese exporting, and tellingly shows that those companies are already outperforming their peers.

While Leaders represent just 8% of survey respondents, compared to 56% who are Followers — preparing themselves

for change — and 36% fall into the Laggard category, they score well in areas of profitability, productivity, business output and employment.

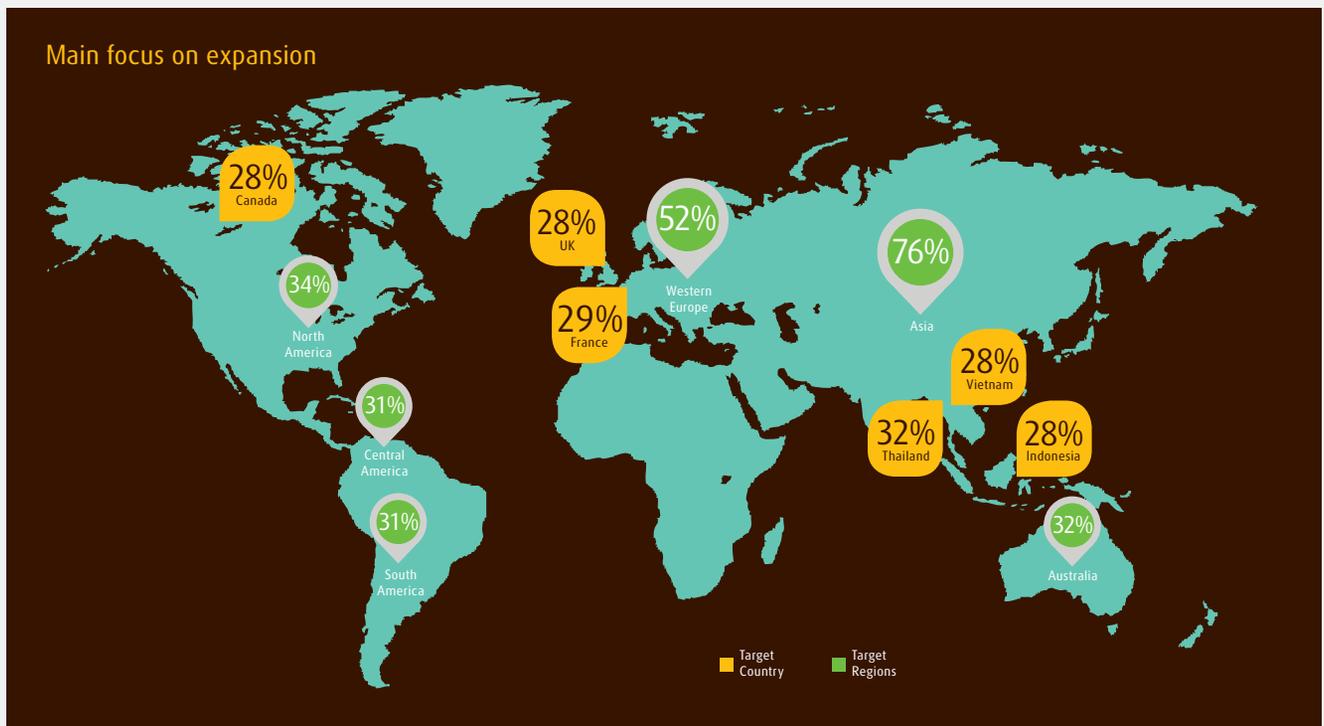
- Profit – 16% more likely to have increased in the last year
- Revenue – 16% more likely to have increased in the last year
- Market share – 15% more likely to have increased in the last year
- Productivity – 15% more likely to have increased in the last year

Leaders significantly outperform their peers when it comes to their performance in the past and their expectations for the future. They trade more in markets around the world and enjoy greater success in them. These market ‘leaders’ are indeed the export champions of tomorrow.

### Survey Highlight 1: Asia - The Most Prevalent Market for Chinese Export Manufacturers

The Index showed that despite already being their primary export market, a large majority of export manufacturers (76%) currently plan to increase their presence in Asia in the next two years. Over the same period, more than half (52%) plan to export to a market in Western Europe, and a third plan to expand to North America (34%), Oceania (32%), South America (31%), and Central America (31%).

At an individual country level the main focus for expansion in the next two years is Thailand – 32% plan to expand there in the next two years, followed by France (29%), Indonesia, Vietnam, Canada and the UK (all 28%).



## Survey Highlight 2: Retail Enterprises Lead in Readiness Index

The survey focused in depth on the retail, automotive & industrial and high-tech manufacturing sectors.

The high-tech sector faces fierce competition from domestic manufacturers and crowded markets. Manufacturers believe they are increasingly facing more competition, as compared to last year (2013), and believe they will face even more competition in the year to come (2015).

Retail manufacturers similarly believe that they are facing challenges coming from within China and externally. Domestically, retail manufacturers say they face increasing labor cost and local competition. Globally, they experience significant challenges from decreasing demand, competition from overseas manufacturers and the appreciating renminbi. They believe their future competitive edge will come from their ability to serve global customers and having manufacturing facilities close

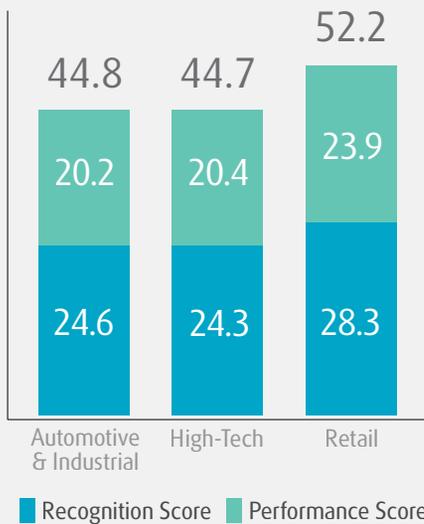
to their customers' destination, i.e. building collaborations with their customers and using global logistics capabilities to enhance the customer experience. They are the best at this, compared with other sectors.

Retail manufacturers are most prepared for the new competitive environment among the three sectors analyzed. They have the highest score of 52/100 on the Made in China 2.0 Readiness Index. They find it necessary to innovate, partner with their customers and add value to their production in the future, to remain competitive and profitable.

High-tech manufacturers (score: 45/100), on the other hand, despite operating in very competitive markets, felt less pressure to reform mainly because of their good financial performance in recent years. In 2013, they experienced a significantly higher increase in market share, revenue, and productivity compared to the other sectors. It is expected that high-tech manufacturers will keep ahead in these areas in 2015.

Manufacturers in the automotive & industrial sector (score: 45/100) saw a slow growth in market share in 2013, resulting in lower revenue growth compared to the other sectors. Because of this, their productivity growth is expected to fall behind other sectors in the year to come. Many of them are not optimistic, saying that their output and new orders are expected to decrease next year.

Overall score by manufacturing sector



**Survey Highlight 3: Shenzhen Manufacturers are Most Ready Among the Four Cities**

Shenzhen-based manufacturers are better prepared for future competition than their peers in other parts of China, with a score of 54/100 on the Made in China 2.0 Readiness Index.

Shenzhen manufacturers believe the competitive pressure and challenges they face are much higher than those in the other regions. There is less loyalty and they feel their customers are likely to switch suppliers if the alternative choice is able to reduce costs or offer a faster and more efficient supply chain. They are increasingly challenged by lower demand for their products and the appreciating renminbi, compared to other cities. They also encounter stiff competition locally, and difficulty in accessing capital for investments.

Not only do Shenzhen manufacturers have a more sophisticated understanding of the value of the Made in China 2.0 Readiness than the other regions of China, they also perform better than their counterparts. They, in particular, are better in leveraging their global logistics to improve the customer experience, and aid their customers to be more flexible and responsive. They also do well in developing in-house corporate strategy capabilities and cross-cultural business and linguistic skills.

In contrast, Chengdu manufacturers (score: 40/100) lag in developing cross-cultural business and linguistic skills, and Qingdao's lag in developing in-house corporate strategy capabilities. Qingdao manufacturers (score: 37/100) are skeptical that the Made in China 2.0 Readiness measures are critical to success. Chengdu manufacturers are less convinced that developing in-house planning capabilities, assessing customers' expectations through market information, and building partnerships with customers are important for growth.

Overall score by location



The survey reveals that there is a big gap between Recognition and Performance, and some companies still rely on labor-intensive manufacturing to run their business.

However, in order to prosper in an environment where global connectedness, innovation and responsiveness increasingly outweigh the advantages of lowest-cost manufacturing, Chinese exporters must move towards a new model built on collaboration and added value. Creating agile and adaptive partnerships that allow customers to succeed will be what sets apart tomorrow's suppliers-of-choice.

There are key priorities for manufacturers to address to remain competitive, and this report provides a framework to help them plan a practical roadmap for transformation. In transitioning to Made in China 2.0, enterprises, and especially small and medium enterprises, must have a better understanding of their situation, the opportunities for development and the need to close the gap with their successful peers to create new competitive advantages.

China's development is key to the continuing expansion of global trade. Today's China is a laboratory for global business and commerce, and a dynamic environment in which ingenuity and problem solving will fuel innovation. Made in China 2.0 is presented with great hope that it may contribute to new thinking on best practices to meet 21st century needs.

For the full version of Made in China 2.0 White Paper, please download it from this site: [http://bit.ly/MiC2\\_OWP](http://bit.ly/MiC2_OWP)

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