

July 19, 2017

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Survey Structure

- ▶ 5 long-haul trucking companies
- ▶ 10 delivery companies
- ▶ Variety of regions, company sizes from medium to very large, all handle ecommerce business.
- ▶ Interviews conducted by phone July 10-18

Objectives

- ▶ To understand ecommerce sales and logistics business trends in H1 2017

Logistics Survey H1 2017

Higher Volumes, Lower Profits

- ▶ Business is growing but generally more slowly this year than last.
- ▶ Financing appears key to volume growth.
- ▶ Competition in logistics continues to grow, and prices are declining. Profit margins tend to be weaker than last year.
- ▶ Service providers are unanimous in saying that JD.com is gaining market share against Alibaba. Some logistics providers are handling logistics for JD.com.
- ▶ Several logistics companies service Vipshop as contractors. Vipshop claims that its in-house logistics company, Pinjun, handles almost all its logistics.

Our logistics survey supports the view that ecommerce sales are rising much faster than sales in other parts of the economy. But the results are puzzling: nearly every logistics company spoke of fast growth, and yet nearly every company was negative about the market, saying competition is too intense, prices too low, and profit elusive. Why, we wondered, can't couriers raise prices, since demand is so high? They said that they are obliged to accept more work because prices keep going down.

The companies opined about the ecommerce majors:

- ▶ Most said that JD.com is growing faster than the other companies.
- ▶ They had praise for the quality of JD's logistics.
- ▶ They had a lower opinion of Vipshop logistics and said that the Vipshop-owned logistics company, Pinjun, does not have the ability to deliver to all Vipshop customers.
- ▶ Views on Alibaba were mixed. Two of the respondents said that their business with Alibaba was down, others said it was up but not as much as Alibaba reported.
- ▶ All the companies complained about cannibalistic competition.

July 19, 2017

Table 1. Logistics Survey H1 2017 Results

| Region | Type | 2016 YoY growth | H1 2017 growth YoY | Profit this year compared with 2016 | Staff changes? | Which ecommerce companies are doing especially well? | In your region, which delivery companies are doing the best? | Do you understand Pinjun? Do they bid out work of others? | Other |
|------------------------|-----------|-----------------|---------------------------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Baoding, Hebei | Long-haul | 15% | 5% | Flat | No change | JD.com. We don't work with them but that's what I hear. | Anneng, Best, and YT | I don't know. | I feel that competition has heated up. Everyone is trying to improve service. |
| Xuzhou, Jiangsu | Long-haul | 15-20% | 3-5%. We are facing intense competition. | Down by around half | We hire staff as needed. We used to have 45 people on staff and now have 30. They get paid according to the order tonnage. Now one person does the work of two. Admin staff haven't grown. | We mostly work with Taobao. My impression is that Taobao and JD are about the same. | Debang and Anneng. Everybody has a small amount of growth. | We don't see them much. I don't know. | The business is getting tougher and tougher. Everyone is in a price war. This area has better volumes but in general the long-haul business is dropping. |
| Anhui and Hubei | Long-haul | 30% | 30%. We are shifting to serving corporate clients instead of individuals. | Worse. There's more competition and our costs have risen. | About 10 | JD. In this region they're growing 40-50%. | Anneng and SF Express. Debang is changing its model and its logistics services are declining. | Don't know. | "The whole industry is shrinking and consolidating. The companies with market power are taking over both trunk routes and last-mile delivery. There's a new website called Yimidida that works with all the provinces to coordinate logistics. That's a reform focus for the future." |

July 19, 2017

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| Shandong | Long-haul | N/A | Down 30% nationwide. The company started this year to stress profit over growth. | Better. We lost money in 2016 and the company hopes we can make money this year. | We're already doing well by not cutting staff. As people leave, we don't replace them. The attrition rate is 10-20%. | We're planning to work with JD and take over a piece of their deliveries. I don't know much about the other companies. | We mostly service Debang and SF Express. They're doing pretty well. | Don't know. | Tiandihui and Chuanhua Logistics are hot new companies that are just opening up their depots and forming alliances. |
| Shenzhen | Long-haul | 110% | 100% | Better | We've added 1,000 people. The competition is intense and prices are falling. Everyone is cutting costs. | | Best has the highest growth. Everyone in this industry has growth. | Pinjun wanted to work with other companies but the strategy has failed--they don't have anything to offer. They pay low prices, don't have a lot of orders, and the delivery process is very slow. Companies gave it a shot and decided against it. After that, they started asking their employees to complete fake orders. They pay RMB 8 per package... even though every employee opposed it, the company insisted and now every employee has a quota of 500 packages per month. | The big ecommerce companies are still driving the industry. It used to be that clothing companies made big batches. Now they can do small runs and keep less inventory. A lot of companies have reduced the number of warehouses and started to rely more on warehousing by the express delivery companies. |

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| Nationwide | Last-mile delivery | 40% | 50%. We have a new deputy GM and are focusing on customer service. | A little better | We're about breaking even. We're planning to add people in September this year. We're letting staff take over each region in order to improve morale and cut costs. | JD. In the first half they grew by 70-80%. They have a strong advantage in logistics quality. | ZTO has the fastest growth, then Yunda. ST is shrinking. Best is listing in America so it's growing now by offering the lowest prices. | All the express companies with with Vipshop. Pinjun's delivery area is quite limited. | SF Express recently was able to resist Alibaba's demands to hold its data. Alibaba is 20-30% of SF's business so they thought they could, and SF resisted. That was a good thing for private delivery companies. |
| Tianjin | Last-mile delivery | 30% | 20%. Organic growth. Logistics companies are all listing and dropping prices, leading customers to change service providers. This growth isn't that great. | Flat | Adding 30 people | JD. They're rising by more than 20% this year. | ZTO and Best because they're aggressively lowering prices. | Pinjun and JD Logistics have the same system. They use partners to deliver to the last mile. Externally, they call these people Pinjun Logistics but they're from other companies. Pinjun handles the product returns. | In logistics, companies are merging and the industry is consolidating. |
| Jiujiang, Jiangxi | Last-mile delivery | 45% | 80%. The market is more mature than it was before. Customers used to think we were a weak company but our image is gradually improving. | Better. Last year we basically broke even. This year we should start to make money. | Adding three people | Pinduoduo has the highest growth. They're about 7-8% of our volume and they only got started in the first half last year. | Best has the fastest growth. ZTO and Yunda and losing volume here. | Pinjun uses other companies for delivery. They work with a lot of little companies locally. | Companies are merging and acquiring now. Basically, all the logistics companies are part of the Alibaba network. JD is not going to show a lot of efficiencies unless the company invests a lot more. |

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| Rizhao, Shandong | Last-mile delivery | 30% | 25%. This is normal, organic growth. | Flat | Added 50 people | JD. They've grown by 20-30% this year. | Yuantong and JD are the best. | I've never heard of Pinjun. | The rural market is a pretty big one, and the profit is good because the logistics are concentrated. This portion of the business is now 10-20% of our volume and it will grow. |
| Shenyang, Liaoning | Last-mile delivery | flat | 10%. There's too much competition. Our growth is organic growth of Taobao clients. | Better. In 2015 we broke even. In 2016, we made a little bit of profit. We think things should be better this year. | No change | The Alibaba platforms are growing fast, 20-30%. JD is also doing well, about 15-20% growth this year compared with last. | ZTO. A couple of local companies in Shenyang have stopped doing business. | Pinjun does its own business. Apart from a few Vipshp customers. I haven't heard of them working for others. But I rarely hear of any customers using Pinjun. | There's no good news in the industry. The fees are very low. Every courier company wants to raise its fees and everyone thinks prices will rise but can't say when. If fees don't go up it's going to be very hard to find people. |

July 19, 2017

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| Shenzhen | Last-mile delivery | 80% | 90% | Better. Last year we lost money-- about 30% of revenue. This year we ought to break even. At least we won't lose as much as in years past. When we started in 2010, we lost a ton of money. | Increasing staff by 20-30% | JD. It's growing this year by about 30%. Tmall and Taobao volumes are down a bit this year. | Anneng and Best | Vipshop has three portions to its logistics: merchants delivering to the warehouses, deliveries to customers, and merchandise being returned to the merchants. Pinjun handles all the deliveries to customers, 30-40% of the deliveries from merchants. 50-60% of merchants choose Kuayue Logistics and the remainder Meitong Logistics. All three of these are Vipshop partners. People used to prefer Kuayue but after Vipshop bought Pinjun they started pushing them. Pinjun bids out a lot of this work. | The most important thing is cost control. |

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| Yulin, Shaanxi | Last-mile delivery | 30% | 20%. Small cities are getting online. | Worse. We have to use our own vehicles now. Staff is up by 30% and that's a major cost. | Adding 6-7 people | Still Taobao but JD is second. In the past, there were very few orders for JD. Now they've risen a lot. | ZTO and Yuantong | We work with Pinjun. Pinjun has no network in the countryside. But the volume of packages from Pinjun is really low. We just help out for free. | |
| Beijing | Last-mile delivery | 30% | 3%. Too much competition. | Worse. Costs are up. | No change | Vipshop and JD are up 100-200%. | Anneng and Best | Pinjun doesn't bid out projects to others. | |
| Yancheng, Jiangsu | Last-mile delivery | at least 33% | 30%. The ecommerce company we work for is paying high rates and good benefits. | Worse. | Adding a couple of people in this region, not many | Seems about the flat. I think JD is doing pretty well. | The big companies are pretty steady. The express business is saturated. | Pinjun has its own trucks and warehouses. Over the last two years in Jiangsu they've started delivering their own stuff. | Our biggest problem is attrition. |
| Nationwide | Last-mile delivery | 15% | 20% | Better than last year. The profit margin is pretty steady this year and there is less discounting. | No change | JD has the fastest growth. | Yunda and ZTO are seeing growing volumes. Yuantong is dropping pretty fast. EMS is also losing volume. | Vipshop has high standards for speed. | JD has the potential to outstrip Alibaba. |

Notable Quotes

“Recently all the express companies have issued statements saying they will pay messengers a commission of RMB 0.15 per package delivered, but no one has actually done it. Everyone is just watching each other to see who make the first move to raise compensation.”

“The rural market is a pretty big one, and the profit is good because the logistics are concentrated.”

“There’s no good news in this business. The bad news is that delivery people get really low pay. Every delivery company thinks that wages have to rise but no one knows when, and with wages this low, it’s really hard to find people.”

“All the delivery companies are listing on public markets. They’ll have more cash and provide better service. There’s no more room to drop prices; a lot of companies are already charging just RMB 2 per package. They have to compete on the basis of better service.”

“Our biggest problem is staff attrition.”

“There’s more and more competition and the price is more transparent. It’s harder to do this business.”

“For us, Tianjin, Shanghai, and Shenzhen are growing. Most other cities are declining. For example, we do about RMB 7 mln a month. Those other cities are RMB 2-3 mln and they’ve all declined by 20-30%. It’s because of competition.”

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