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QEX Logistics:

OPENING DIRECT DOORS INTO THE GROWING CHINESE MARKET

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THE COMPANY

QEX Logistics Limited is a cross-border logistics company based and listed on the stock exchange in New Zealand. It now plays a significant role in facilitating the growing direct trade between New Zealand (and Australia) and China. QEX's streamlined one-stop-shop service integrates the collection, storage, warehousing, repacking, customs clearance and delivery of New Zealand products directly to individual Chinese consumers, or via a daigou (a professional shopper), saving time and money while helping to eliminate the middleman.

When it was established in 2010 by Ronnie Jingjie Xue and his wife Doreen Xiaobei Wu, the company was known as New Y Trading Ltd. The couple first arrived in New Zealand as international students in 2002, and returned when Xue was posted here by his then-employer. Wu moved with him, but could not find employment as an accountant. She thus started trading, initially from their garage, buying infant formula to send to friends and family back in China. At the time, infant formula in China was hit by the melamine scandal, which badly dented Chinese consumers' confidence in local milk products. New Zealand and Australian products, in contrast, were in high demand due to their high quality reputation. The couple saw the potential opportunity to grow their business, and Xue soon quit his job to focus on growing their business.

Growth has been rapid since the company was founded in 2010. In 2011, the founders set up a company in Shanghai in 2011 to act as a local Chinese registered company to work with Shanghai Post. New Y Trading subsequently became ultimately held by QEX Logistics Ltd. By 2012, QEX had established its own clearance team in China. QEX also became the first New Zealand Risk Management Programme (RMP)-certified cross-border logistics company in China in 2013. RMP certification provides consumers with an assurance that their products are safe and authentic. By 2015, the company had the first automated sorting and labelling conveyor system in the cross-border trade industry. In New Zealand, QEX was the first cross-border logistics company to receive QEX was named New Zealand's 42nd fastest growing company by Deloitte in 2016 and accelerated up the rank to become the 13th fastest growing company in the Deloitte Fast 50 in 2017.

QEX's main market is in China and the company believes China will provide further significant growth opportunities for QEX, which acts 'as an economic bridge between Australasia and China.' The major products exported by QEX include baby formula, dairy products, healthcare goods and personal parcels. The products are flown daily to China, cleared through customs and delivered to the end user promptly. In 2018, QEX relocated to a bigger warehouse at Airport Oaks, Auckland and became the exclusive supplier for Munchkin baby products from New Zealand into China, through its joint venture company ANZ Brand House, established in early 2018. The company was a logistic partner with New Zealand Trade and Enterprise (NZTE) for the first China International Import Expo. The company's customers and suppliers include Fonterra (Anchor), Danone, Munchkin, Countdown, Health Element and many others.

The company's revenue for the 2018 financial year was $31.5 million, up 42% from 2017. Milk powder revenue was a key driver behind this strong growth and revenues from international parcel delivery, logistics and customs clearance increased by $3.2million to $6.25million, largely as a result of delivering the higher volume of milk powder sold. At the end of 2018, the company had 24 employees in New Zealand and 20 employees in China.

THE CHALLENGES

Although QEX has experienced a high level of success and rapid growth, it has faced several challenges along the way.

Regulatory uncertainty in China

According to Xue, now the CEO, a key challenge for QEX in growing their cross-border E-commerce trade business was the difficulty in navigating through the legal and policy challenges in China, particularly in the earlier days when cross border E-commerce trade was in the start-up stages in China and the rest of the world. There was no prior experience, learnings or any business model that either government regulatory bodies or industry players could draw from. Xue explains that, 'the whole industry in China is learning and exploring. When you have such a big market with 100%, 200% or even 500% increase in trading volume year by year, no one knows exactly what we should do.'

This uncertainty can be significant. Products like fruit, seafood, chilled meat and dairy products like fresh milk from New Zealand generally require timely customs and quarantine clearance processes. In order to reach final customers, a company like QEX also needs an efficient distribution system to take products to customers from the port of entry to wherever they are located in China. Importing companies that are not recognized by the Chinese customs agents can be subject to frequent 'random checks' of their goods, which can delay products moving through customs. For fresh products, this is a potentially critical problem, as delay means that the quality of products cannot be ensured.

Once goods are moved through the port, they need to be delivered within China, hence QEX needed an agreement with a delivery service partner with the capacity and reliability to ensure parcels went to wherever they were supposed to go, in a timely manner. An initial difficulty faced by QEX was how to sign a cooperation agreement with Shanghai Post, part of the large China Post group, in order to distribute their parcels across China. At that time, New Y Trading (as the company was then known) was not, as a New Zealand company, in a regulatory positon to sign direct cooperation deals with Shanghai Post. Shanghai Post required a locally-registered Chinese company to work with.

There are other sources of regulatory uncertainty. Xue explained that the China General Administration of Customs releases very general policy guides, while the enforcement, understanding and application of these policies are dependent on the local customs department as well as local governments that have administrative discretion in enforcing these policies. In the very early stages of business, QEX did not have the knowledge or direction for navigating easily through customs clearances, as it depended on discretion that could be exercised differently at different ports. Policies could change overnight, with significant impact on recently signed agreements that became nullified overnight. This could result in the need for new negotiations to start again under the new policy.

China's new E-Commerce Law that came into effect on 1st January 2019 provided a clearer and more standardized approach, but challenges remain. Companies bringing products into China still have to adapt to sudden changes that might occur. According to sources in China, the way Chinese ports operate is also not uniform across the country. In some ports, official customs and quarantine services are now integrated into one large service operation, while other Ports still have separated operations.

Market competition

Market competition was another key challenge for QEX. The company had to compete not only with other market players in New Zealand, but also with market competitors in Australia and other growing 'daigou' markets. Daigou are professional shoppers, or 'an army of informal traveling shopping agents who buy products in Australasia for sale in China.' These products are often expensive, hard to find or unavailable in China, such as mother and baby, beauty, high-end food and beverage and nutraceuticals. Daigou trading primarily takes place via WeChat, China's largest social media platform that includes functions similar to those offered by Facebook and Twitter, but which also features online stores and direct payments between users. This platform enables daigou to do business very easily with friends, family and other contacts. According to a 2016 report from Bain & Company, the daigou industry worldwide was worth around $10 billion in 2016.

Another factor that contributed to challenges of market competition was the scale of businesses in the New Zealand market. Players here are mostly very small in scale and, according to Xue, have not had collective bargaining power when facing suppliers or Chinese e-commerce platforms. At times, price competition can be fierce and destabilizing.

Unfamiliarity with QEX's business model

QEX's business model is a relatively new concept in New Zealand, built on the concept of online shopping to cater to Chinese consumer preferences for healthy New Zealand food products. It involved the integration of courier service, a controlled atmosphere storage operation, export and import facilitation, and a supply chain service with focused on building a full-circle service: 'from e-commerce to delivery - that meets the increasing demands of global trade.'

The main driver behind the implementation of this business model was to make it easier for manufacturers to do business with China by cutting out the middlemen and to allow products to be sent directly to the Chinese consumers directly. It was a big breakaway from traditional export models, where all inventory needed to be sent to China and certified before it could go to market. QEX allowed manufacturers to keep their inventory in New Zealand while the company performed the rest of the process. It was a new business model that the mainstream business industry was unfamiliar with. Businesses were reluctant to try the new business model, perceiving it to be risky. Furthermore, it was difficult to convince and gain the support of local New Zealand suppliers.

STRATEGY

Local presence and recognition

The company realized early on that it would need a local presence of some kind in China. Founders Ronnie Xue and Doreen Wu set up Shanghai Ditu International in 2011, in order to be able to sign an exclusive partnership agreement with Shanghai Post, to whom they were introduced by personal contacts. They were able to call on the advantages of having close family in China. Initially, the company was registered under Wu's mother's name. QEX formally acquired Shanghai Ditu in 2017 but Xue recalls that, back then, 'my mother-in-law oversaw the company for us back in China.' In 2011, they were the first and only New Zealand company to sign an exclusive cooperation deal with Shanghai Post. This exclusive cooperation deal has given the business quite a privilege. As Xue puts it, 'we were the second largest company in parcel volume to send consumer parcels to Shanghai Post. We were also the key customers to Shanghai Post with regard to retail commodities import service. So, at that time, when there are very few people know exactly how trans-border retail logistics works, we were presented by our Chinese logistic partner as a case study and example for Chinese officials to study and research.' This is a unique advantage and source of customer appeal in New Zealand.

A strong local presence means that the regulatory uncertainty around customs clearance is actually a source of competitive strength for QEX, because a key strength of the company is the ability to get products cleared through Chinese customs quickly. According to Chinese media accounts, timely customs clearance in China requires not just a professional team, but also being recognized by the local customs agencies as their accredited customs clearance company. Companies that are accredited believe that becoming recognized by the local Customs as a credential company has significantly improved their Customs Clearance efficiency, very much reduced time and logistic cost while getting their products cleared by the local Customs. Online reports in Chinese suggest that accredited companies are less likely to see their imported products subject to random checks by the customs agency than their un-accredited counterparts, with some accounts estimating 0.5% check rate for "high credential" companies compared with 94.2% for "low credential" companies. China General Administration of Customs has indicated that the Chinese Customs are using an AEO (Accredited Economic Operator) system to manage companies that are engaged in foreign trade. However, getting the accreditation is not easy, as it requires the company to have a well-established operational history. Some companies are able to gain the support of local customs officials, who will help them gain accreditation. According to one such official quoted in the Chinese media, 'we will pick up companies with sound credibility and operational history to help them become accredited.'

Local presence is a source of strength in other ways too. China's new E-Commerce Law stipulates that companies selling products to China via an E-commerce platform must either be registered as a Chinese company or at least have a Chinese company as their business partner. For established companies like QEX, this is actually a positive development, as they meet the requirements and stand to gain from the resulting increase in regulatory standards for E-commerce. In contrast, the law is expected to make things hard for small companies and individual daigou who are unable to bear the cost in time and money in order to register as a Chinese company.

Contingency planning

As part of QEX's strategy to address policy and legal challenges in China, the company developed contingency plans that included exploration of many other alternative ports. Xue says, 'we cannot count on just one port.' Being in an extremely competitive market, 'you cannot do much about your price' but they could address other factors. Customs clearance capability is the key to gaining competitive advantage and was highly dependent on the specific scenario surrounding each local customs department. Maintaining good relationships was imperative. Xue explains that 'I will have to go back to China every year to visit all our business partners at different ports in China, to get to know the most recent policy and pay visits to local customs services. Our Shanghai-based manager travels more frequently to these ports to see what and how we could do better.' The bottom line for the company is to ensure that the parcels sent from New Zealand would reach end consumers promptly and without delay, and key personnel do not assume that the process will be free from disruption. They realize that operating reliably in China requires them to have first-hand information about changes in the regulatory environment, operational approaches and local priorities.

Listing on the NZ share market

QEX became publicly listed on the New Stock Exchange (NZX) main board on 11 October 2018. It was a central part of the company's growth strategy. Like many other growth companies in New Zealand, access to capital was crucial. 'Being on the NZX main board is a significant step because it gives us a higher profile among investors and enables us access to a bigger pool of capital which we need to fund our growth strategy,' says Xue.

Xue is the major shareholder and, according to the company's chairman, Conor English, QEX's shareholders include high net worth investors. Institutional investors were also starting to take an interest. Being listed on the main board provided the company with the advantage of being better known to local suppliers, manufacturers and brand companies as it allowed for 'more people to know about us,' says Xue. Shortly after the company was listed, it drew further attention from organizations such as NZTE, which organized a group trip for Kiwi companies to visit QEX with the aim of facilitating better understanding of QEX's cross border E-commerce services between New Zealand and China.

Being listed on the NZX also paved the way for establishment of a trading account with Danone in 2018, which according to Xue, is a key step forward for his business. 'Having trading accounts with Danone, Fonterra and other milk powder manufacturers means that we can communicate directly with the suppliers. Our cost price, quota, and profit are secured,' says Xue.

Expanding services

The listing of the company has enabled further development of strategy. 'Being supported from the capital gained from our listing on the share market, we will be able to enlarge our business to a whole cross border E-commerce eco-system, in addition to the supply chain services that we have now,' says Xue. The company was able increase the space of its Auckland warehouse to more than double its existing size and was able to store more inventory and thereby navigate supply shortages to meet customer orders, which had helped drive revenue growth. The company has also applied to set up a bonded warehouse in China. Having such a facility would mean that QEX would not have to pay tax in China until products were sold online, though the products were still treated by regulators as being imported. Having a larger capital to draw from also enabled QEX to develop further plans to expand into Australia and to add health supplements such as honey and vitamins to its existing product offering.

RESOURCES

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