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■ QUESTIONS & ANSWERS

A Bulk Vending Perspective On China's Growth And Future

JACKSONVILLE, FL — With China being a leading source of capsuled bulk vending products, it naturally follows that what effects that country impacts the bulk vending industry. Yet, even as the industry depends on products imported from China, some operators remain unaware of the dramatic changes taking place there.

VT's Hank Schlesinger recently sat down with Dax Logue of Brand Vending Products during the recent NBVA trade show here to discuss these changes and what they mean for the bulk vending industry.

VT: A lot has been written on the "Chinese Miracle" – the dramatic growth of China's economy – over the last couple of years in the business and consumer press. Are they over-stating the situation or is it a real phenomenon?

LOGUE: Absolutely, it's real. Recently somebody asked me what it was like to go to China, and my most recent trip a couple of months ago helped me summarize the answer very quickly. It's what I would envision it would be like to leave New York City in maybe the 1880s and go to Phoenix, AZ, or maybe San Francisco or L.A. It's almost as if you're seeing history rolling out in front of you. It's the new frontier. They literally call it the "the new frontier," and that's exactly what it is.

So, it's a "boom town?"

Yes, booming. It really is just booming. **Give me an example. Are you seeing skylines, cranes, new buildings or what?**

It depends on where you go. Shanghai is a lot of times my first destination. Shanghai being the new Chinese city, if you will. When you fly in you see an endless amount of building, construction. There are skyscrapers everywhere. There

is no limit to where buildings are going up. Then when you're actually on the ground, you see how they are implementing the latest technology. You see it in trains, on freeways, everywhere. Some of the best freeways I've been on are in China – just beautiful. Brand new, cutting-edge designs.

Compare this to six years ago.

You didn't see any of that. You may have seen, going into Shanghai, skyscrapers starting to go up, because it was the beginning of the boom. But over the years it's progressed exponentially. It's

everywhere. As a matter of fact, as I go farther inland I'm seeing more and more of the same kind of boom that I'm seeing on the coast.

Six years ago it was fairly easy to buy bulk merchandise in Hong Kong and Shanghai. Has that changed?

Yes, it was; it was fairly easy. It's a penny industry. We deal, more times than not, in less-than-a-nickel type of purchase prices. It was much easier [then] because the prices were lower. Since you reference six years ago, we'll stick with that. There were a lot of things that have happened to the world market in that time frame. For instance, petroleum, it's not just a U.S. or European issue. Now it's just as much a Chinese issue as anywhere in the world. Prices have just gone up and consequently, buying penny items has become harder, all over China.

It's been said that the building boom in China, specifically along the coast, has forced many of the older industries inland. So, is it accurate to say that you've been pushing farther inland?

I think I have been pushing, but that isn't a really accurate statement. My supplying sources are moving east, into eastern China. As they look at issues as we look at issues here in the United States, like cost of property, things are changing for them. They have to set their big factories up in places where they can afford the property as well as have the work base.

Who are they being displaced by?

Electronics firms, for instance. I've seen that happen a lot around the Shanghai area. What four or five or six years ago were primarily plastic or even metal factories are now becoming the silicon chip and technology factories. That means that space is no longer available for the penny industry or the toy industry.



FAST COMPANY: Brand Vending Products' Dax Logue is a frequent traveler to China and has witnessed that country's dramatic changes firsthand. Here he poses with the maglev train at the Shanghai Pudong Airport. The state-of-the-art high-speed train actually levitates above the tracks via magnets.

So you're following factories inland?

Yes, we are following them inland, but this has been going on for a lot longer than six years. For instance, look at Hong Kong. If you go to Hong Kong today you won't see a factory. Twenty years ago you would see factories in Hong Kong. What you see in Hong Kong today are factories being represented in suites in high rises. The factories themselves are on the new frontier on the mainland. I think we're seeing the same thing happening all over the west coast of China right now. Companies are leaving representation behind and moving the actual production east or inland.

Does that add to the product cost?

Absolutely, absolutely it does. They have the same economic equations we have here in the United States. A lot of the same ones; there are some differences, of course. They are a communist country and they operate much differently than we do. But I think they are finding out that there are a lot of the



CITY RISING: Shanghai's skyline has undergone spectacular growth over the past few years as China becomes a world economic force. Some would consider this area of China to be the largest construction site in the world.

same difficulties.

Shipping the finished products to the coast, for instance?

And it isn't just that. A lot of the raw goods, the raw materials that China uses to produce for the United States and other countries around the world are imported. So if they bring it into a port and then have to ship it inland, then you have the cost of moving steel and plastic and all these raw materials inland. Now you make it, now you have to ship it back. So you have all these logistical costs that they didn't have some years ago.

One of the news stories that raised eyebrows a little while ago was the reporting that there was a labor shortage. That seems incredible in a country of more than a billion people.

There are several things happening now. The Chinese government, in order to slow down the migration from the east to the west, to the coastal cities, some years ago started subsidizing farmers better. Farming has always been very much a ma-and-pa industry in China. So along with all the other changes they're making, they began to subsidize some of the farming, which brought more money to the farm.

Consequently, people don't need to send their children to the coast to work in factories. They began staying home and working on the farm, because there is adequate income. The other thing is, as these western cities in China grow and become more westernized, these employees see what the new cars look like, the new buildings, the new progressive China is more visible and they're not accepting the same low, low wages that they were accepting before. They're just more demanding.

And it pays better making DVD players than it does making bulk merchandise?

Absolutely. No doubt about it. I don't know the numbers for making DVD players, but I can tell you I do know the numbers for making tiny toys and they have to be better. It's very obvious to me.

So this is all putting upward pressure on the price of bulk merchandise?

Precisely. And there's a lot of upward pressure.

Is there going to come a day when Chi-**na will become too expensive for bulk merchandise?**

I have to say yes. I think about these things all the time. I have these long, 16-hour flights back to the States, which gives me a lot of time to think these things through. And let me tell you where I see it from – for instance, Taiwan. Our company, roughly 15 years ago, began importing stickers and tattoos from Taiwan. And Taiwan was a very affordable place to do business. Today Taiwan is not very affordable for our industry. As a matter of fact, many, many Taiwanese business people are in the process of moving their factories to China. Again, this sort of eastern migration. Going inland. I believe we've seen it in Taiwan – the wages go up, the cost of living goes way up – and when it does, you can no longer run a factory and pay people low wages. You have to pay real wages.

So what happens to bulk vending?

We have to adjust every time things change for us on the supply side. I can tell you people are still asking for prices they were comfortable with two, three or four years ago. And we're in business, we have to weigh all the time whether we can meet their demands. I can say, as an industry, we're just going to have to prepare for the inevitable and that is, they are going to have move prices up, with or without a dollar coin. China is the reason we've been able to bring very inexpensive or affordable items to the bulk vending industry. That is going to change. As China shifts its focus away from cheap inexpensive items to more technologically driven items, you can see that their interests are not going to be in this type of item and it's just going to change things.

Just as Japan did?

Right! Just as Japan did. If you really want to look at what may happen, look at Japan. Years ago "made in Japan" translated to "cheap." Today, "made in Japan" means Lexus, it means Hitachi, wide screen plasma TVs, those kinds of things. The Chinese know this, too. They know all about this. And they're not waiting around for that progression. It's not going to take 25 or 30 years. They're going to make it happen real fast. And it is, in fact, happening very quickly.