

**UNIVERSITY OF LJUBLJANA
FACULTY OF ECONOMICS**

DIPLOMA THESIS

**EXPORT PRACTICE AND MANAGEMENT BETWEEN CHINA AND
EU MARKET – THE CASE OF TOP TAPES™ EXPORT TO EU
MARKET**

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YAN LIU

STATEMENT

I, **YAN LIU**, student of the Faculty of Economics, state that I am the author of this diploma paper, whose mentor was **prof. dr. MAJA MAKOVEC BRENČIČ**. I permit this paper to be published on the faculty's web page.

In Ljubljana, **03. 08. 2008**

Signature:

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1. Introduction

1.1 Problem definition and author's study purpose

With its 20,000 km² geographic landscape and slightly more than 2 million populations, Slovenia is a small-market country and Slovene firms have confronted with international business ever since the country exists, because the domestic market is too small to support their activities. Since 1st May 2004 Slovenia has joined in the European Union result in agreement of liberalization of free flow of products, services, labor force and capital within EU (Czinkota, etc. 2004, p. 80). And from 1st January 2007 it has adapted to the common currency-Euro, prices are transparent and comparable among all EU countries, which has led Slovene firms exposed to even more fierce competition. Pressures of finding a proper way for survival and development integrated with the fast changing global environment has arisen as the question that every firm should answer at the core.

Be aware of above mentioned factors, Tekstilna Tovarna Okroglica Corporate (hereinafter referred to as T.T.O), one of the leading global manufacturers of automotive-related and cable-related non-woven products, located in Volčja Draga, Slovenia, in year 2006 decided to open a wholly owned enterprise in China. Why it chose such a distant country over a psychological close one? Why it pays off to set up business in China for a Slovene company? What are the measures and criteria of this choice? Consequently, what are the gains and losses?

On the other hand, China, with its rapid economic growth, keeps attracting foreign direct investment at a double digit rate annually. However, the pattern of industry/investment portfolio has changed along with time. Restrictions and stimuli of investment on certain fields are gradually shaped, together with the Chinese government attitude toward foreign investments. Chinese president Hu Jintao's report at 17th Central Committee of the Chinese Communist Party of China (Hu Jintao, 2007, Chapter VIII.) stressed the importance of reform and innovation so as to implement scientific concept of development and promote social harmony in 2008.

How should T.T.O react in such a tendency and together with the already established daughter company – Qingdao Sinositec Engineering Textile Co. Ltd to create synergy? Qingdao Sinositec Engineering Textile Co. Ltd (hereinafter referred to as Sinositec), on the other side, has selected carefully at the beginning the production program about cable-related non-woven manufacturing. Before entering Chinese market, T.T.O has studied the framework of Chinese government legislations and regulations, tax policies, import-export requirements, industry classifications, estimated total investment, estimated return on investments, human resource/personnel management know-how, product packaging demands etc. in order to positioning the final products properly. Therefore, the primary purpose of this thesis is to verify whether the strategy of setting up the daughter company- Sinoisitec, in city Qingdao is a proper decision.

1.2 Research aims

In order to verify the wisdom of setting up the daughter company in China, it is necessary to define market attractiveness in the host country, to discuss variant entry modes and to find out the most proper one. Once the link has being established, the thesis will examine if the operational module, which is entirely transplanting production techniques from the mother company to its daughter company and re-export the final products to Europe, is feasible.

1.3 Hypothesis

Based on above mentioned purpose, the following hypotheses will be tested in this thesis:

A. T.T.O, under the pressure of small home market and saturated existing markets, has joint motives to go international. I name it joint motives because it is a mixture of both reactive and proactive motives. As shown in table 1, different motives could stimulate one company to start internationalization. In this case, on one hand, the mother company – T.T.O is under the pressure for expansion, because of the small scale of domestic market. If it only produces for Slovene cable manufacturers, it would have much excessive production capacity. This is the reactive part. On the other hand, China is an attracting outsourcing destination. Chinese labor force is on average cheaper than Slovenian and other European countries. In addition, T.T.O's main suppliers of non-woven materials are Chinese companies. This means by setting up a subsidiary near the current suppliers' location enables T.T.O better and closer communication with them. Both in input quality control field and in elaborating technical specifications. This is the proactive part.

Table 1: Classification of motives to internationalize

	Internal	External
Proactive	Managerial urge	Foreign market opportunities
	Marketing advantages	Change agents
	Economies of scale	
	Unique product competence	
Reactive	Risk diversification	Unsolicited orders
	Extend sales of seasonal product	Small home market
	Excess capacity of resources	Stagnant or declining home market

Source: International marketing and export management, 2004, p. 63

B. T.T.O should choose its competitive strategy carefully and position its products for the high-end segment in EU market. By providing high quality products and services, T.T.O should first focus on cooperation with world leading cable manufacturers (the Top 100, for example). Speaking about winning new customers, it is more acceptable and prior to consider those customers, with whom it has had already cooperation background with their brother or sister companies in another EU countries, for example breaking into Prysmian SpA France with the help of cooperation with Prysmian SpA Italy. With its long and attractive customer

reference, T.T.O could gain an obvious advantage over other competitors.

1.4 Methodology

In order to get information as accurate as possible; different methodologies have been applied, incorporating both qualitative and quantitative approaches. However, because of the big scale of Chinese market, most of the selection criteria are qualitative in nature, and quantification is very difficult. Thus, first of all, theoretical background was analyzed. Then, secondary data were processed. Finally, primary data from the investor and its Chinese daughter company have been acquired directly and processed for the analyzing purpose.

Secondary and primary data have been collected through different media, both internal and external. Direct market observation was conducted through visiting potential buyers across China, closely observation of demand and supply regard various types of water blocking tapes and industry information was collected via specific seminars, fairs and conferences.

Table 2: Sinositec visited fairs in China

Date/Place	Name of the fair	Role	Aims
25-28. Sep. 2006, Shanghai	International Wire and Tube Industry Trade Fair	Exhibitor	Self-introduction into Chinese market as a WBT producer.
15-20. Apr. 2007, Canton	The 101 st China Import & Export Fair	Buyer	Searching for potential suppliers of raw materials, such as non-woven, carbon black paste, etc.
15-20. Oct. 2007, Canton	The 102 nd China Import & Export Fair	Buyer	Searching for potential suppliers of raw materials, such as non-woven, carbon black paste, etc.
7-9. Nov. 2007, Beijing	WIRE Asia (Beijing)	Exhibitor	Self-introduction, exchanging ideas and information with other WBT producers in China.

Source: Data were adapted from Sinositec internal documents, 2007.

2. Analysis of the macro environment-PEST Analysis of China

As mentioned in section 1.3, T.T.O has joint motives to invest in China. As part of FORI Business System¹'s perspective that Chinese market is full of opportunities for other various business activities, in which FORI BS might be interested. Aside from it, T.T.O's technological advantages led unique product competence (proactive motives), as well as the pressure of small home market and saturation of existing markets (reactive motives). China is

¹ FORI business system owns 62, 9% of the shares of T.T.O. Thus FORI corporate strategy and motives to invest in China are vital for the final decision (Source: T.T.O company presentation 2006).

not only suitable for T.T.O's investment, but may also be assistance strength in China for other firms' activities within the group. It is the managerial urge of FORI BS to invest in China too (proactive motive).

2.1 Economic Environment in China

Since year 1978 Chinese government took the economical reform into agenda, Chinese economy has enjoyed a consistent averagely 9.6% real economic growth annually for more than two decades (China GDP growth rate, 2006). Since millennium the economic growth rate appears to be double-digit rate in China. The appealing change has greatly related with foreign trade, since the percentage of foreign trade represented 38% of Chinese GDP till 2005 and EU has been China's biggest foreign trade partner since 2004 (Stumbling Towards Mutual Understanding, 2007). International trade has grown largely; total import and export trade volume grows from US \$20.640 million in year 1978 to US \$323.900 million year 1998 to US \$11.547.400 million year 2004 (series of China report, 1999). The degree of integration into international trade has jumped from rank 28 to rank 11. Household income has increased 7 times as the one in year 1950 in real value term.

In 2002, China (including Hong Kong) attracted US \$66 billion in foreign direct investments. In the same year, more than 150,000 companies with foreign capital – two-thirds of which were joint ventures, the rest wholly foreign-owned subsidiaries – account for half of China's external trade, against 5% in 1988, and employed about 10% of China's active urban population. The large inflow of foreign capital has mainly resulted from:

- economic liberalization of different natures of economy
- preferential treatment to foreign investors

Chinese government has always tried to attract foreign investment to China, thus he has set a series of preferential policies to stimulate goods and service export as well as capital import. The economic policies (Zui Xin Shui Shou You Hui Zheng Ce Shi Yong Zhi Nan, 2006, pp.262-269) adopted by the Chinese government for 54 National Economic and Technological Development Zone along the country's coastline

1. The ownership structure of a foreign invested company may be in joint ventures or in wholly foreign-owned firms.
2. Tax policies (Zui Xin Shui Shou You Hui Zheng Ce Shi Yong Zhi Nan, 2006, pp. 262-269) which provide incentives to foreign investors and to facilitate their entry:
 - 1) companies with foreign investment pay a reduced corporate income tax of 15%²
 - 2) manufacturers with an operational period of more than 10 years are exempt from corporate income tax for the first 2 years when they start making profits and are taxed at half the rate between the third and the fifth year
 - 3) exported products (with some specified exceptions) are exempted from export duty and value-added tax

² This preferential tax treatment has been abolished for companies registered after 1. Jan. 2008, for those registered before 2008, has five year transition period.

- 4) equipment, raw materials and office supplies for own use that have to be imported are exempted from import duty and value-added tax
3. Local administrations are given more freedom to govern their local economies according to the needs of investors.

In addition, Chinese 《Company Laws and Regulations of China》 (Law Press, 2007, pp. 566-574) has clearly defined the percentage of registered capital in cash should be at least 30% of the total registered capital, leads investment in goods counts in registered capital at a maximum of 70%. Moreover, according to Chinese tax regulations, no matter where the registered equipment is consumed, it is exempted from VAT tax payment.

Though from 1st, January 2008 further, the new corporate income tax law will step into force, Chinese government gives foreign invested companies five-year transition period in order to adjust to the new corporate income tax rate – 25% (Jiang W., 2008, p. 1) which means for joint-ventures and wholly foreign invested companies registered and started functioning before 2008, however, have not made any profit yet, are exempted from corporate income tax for calendar year 2008 and 2009; and enjoy decreased tax rate of 11% and 12% in 2010 and 2011 respectively, from 2012 further regardless the nature of the company, the corporate income tax will be universal and count 25% of the corporate profit.

Since both the import and export's volume and value grow bigger and bigger year by year, China plays more important role in solving international issues, which, in turn, becomes more powerful. The adjustment of Special Drawing Rights (SDR) quota to 3% circa US \$8.4 billion of the total quotas in International Monetary Fund reflects the increasing importance of China in world economy (IMF, Press Release, 2001).

Up to now, China still practices managed exchange rate system. The central parity exchange rates against major currencies have been relatively stable till now and could be found on China's central bank – People's Bank of China (<http://www.pbc.gov.cn/english/>). Daily effective exchange rate can be found on State Administration of Foreign Exchange's website (http://www.safe.gov.cn/model_safe_en/index.jsp?id=6). The daily official central parity rate against other major currencies could be found on China central bank's link: <http://www.pbc.gov.cn/detail.asp?col=483&ID=1967>.

Table 3: Average exchange rate of RMB per US Dollar on yearly basis

Year	RMB per US Dollar (Period Average) on a yearly basis
2001	8,2771
2002	8,2769
2003	8,277
2004	8,2768
2005	8,1959

Source: Data were adapted from <http://www.pbc.gov.cn/diaochatongji/tongjishuju/>

2.2 Political and Legal Environment of China

Because the large geographic scale of the country and the imbalanced/unequal developing race, urban residents in big cities such as Beijing, Shanghai, Shenzhen, Hangzhou and so on, as well as coastline cities such as Qingdao, Dalian, Xiamen, Guangzhou, Hainan, etc. enjoy higher average disposable income than other inland cities. In addition, there is also a big gap in living standards between urban and rural population. The annual per-capita disposable income of urban households was 7703 CNY in 2002 (circa US \$930.6287, Ex.rate US \$1 = 8.2772CNY, Dec.2002), a real increase of 13.4% over the previous year; the per-capita net income of rural households was 2476 CNY (circa US \$299.1350), a real growth of 4.8%.

Table 4: Yearly average disposable income in QD area from 2001-2005

Year	Yearly average disposable income in US dollar (exchange rate 1 US dollar = 7.31 renminbi, 2005 Dec.)
2001	US1563.06 dollar
2002	US1756.36 dollar
2003	US1937.35 dollar
2004	US2181.94 dollar
2005	US2453.90 dollar

Source: Own; data also adapted from QD labor and social security network, 2007.

Tax refund system is vital for a company, since it directly decides the final total costs of one product to an export market, thus decide the competitiveness of one commodity in the marketplace. Economic Laws and Regulations of China (Law Press, China, 2007, pp. 621-623) has clearly defined that there are 7 groups of enterprises, organizations and/or individuals are eligible for tax refund. All below mentioned groups have Regular Tax Payer status, but not all regular tax payers are entitled with tax refund.

- 1) Domestic invested import and export corporations with import-export license.
- 2) Joint (China, foreign) invested import and export corporations with import-export license.
- 3) Trading groups whose business scope ranges from manufacturing, import and export trading with import-export license.
- 4) Domestic invested manufacturing groups with import-export license.
- 5) Foreign invested manufacturing enterprises.
- 6) Manufacturing enterprises without import-export license, but authorized import and export trading agency to export the final products.
- 7) Special permitted types of enterprises by the government:
 - 7.1) Service companies, which majors in repairing, contracts business abroad.
 - 7.2) Enterprises that purchase goods at home but export them abroad as China foreign invested subjects.
 - 7.3) Contracting construction companies purchase goods at home but ship them abroad as part of project items/capital.
 - 7.4) Domestic food catering companies provide on-flight food for foreign civil aviation airlines.

- 7.5) Supplying companies selling goods to domestic deep-sea shipping corporations and/or foreign shipping corporations.
- 7.6) Bidding companies, which is supported by foreign government loans or loans from international financial institutions, won the bid through international bidding campaign.
- 7.7) Enterprises that work on bringing-everything-with-himself basis abroad, goods are including equipments, raw materials and spare parts.
- 7.8) Enterprises supported by government preferential loans and built up under cooperation/joint stock financing for export.
- 7.9) Enterprises engaged in compensation trade or barter trade and/or small scale trade across borders.
- 7.10) Duty free shops at international departures (airport store, ship port), which are under the administration of China tourism institution, are entitled to tax refund.
- 7.11) Overheads of water, electricity, gas of enterprises located in export processing park, free trade area/zone.

Right now, there are five normal divisions of tax level 17%, 13%, 11%, 8%, 5% and corresponding tax rebate degrees. However, Chinese government supports export of particular goods and services, so they can be charged for decreased tax rate of either 6% or 4%. Each calendar year the Chinese General Custom House publishes bilingual<Customs Import and Export Tariff of the People's Republic of China> defining the tax rate for each category thereby each kind of commodity (From Introduction to Mastery of Tax Exemption, Credit and Refund in Manufacturing Enterprises, 2005, p. 16).

Since tax refund matter becomes more and more important, this official website becomes foundation/source of solving tax-refund-related questions. Every enterprise can check the tax refund rate related with its own products on-line (Taxrefund, 2007).

2.3 Social and Cultural Environment of China

Fons Trompenaars has also tried to identify key cultural dimensions. His research involved the administration of questionnaires to over 15,000 managers in 28 countries and identified five key “relationship” dimensions. One among them is specific vs. diffuse culture: “in specific cultures, there is clear distinction between work and private life whereas in diffuse cultures, the distinction between work and private life is blurred” (Trompenaars, 2004). According to this, China clearly belongs to diffuse culture, where building personally work relationship is essential for achieving some important goals. Wine and dine is considered inevitable in Chinese business circle and many deals are agreed around dinner tables.

The emphasis of personal relationship or *guanxi* (Young, 1997, p. 29) is essential since many things could be arranged through strong *guanxi*, despite reliance on laws and contracts become more and more popular. Thus people spend enormous energy to cultivate the personal relationship in long-term and personal trust is the basis of doing business in China.

Chinese is the language spoken by the Han nation, which counts 91.6% of the total population (China, 2003, p. 4). By year 2002, more than 90% of the population had received the nine-year compulsory education. English is the first foreign language being taught in junior high schools in most urban cities. College and university students are required to obtain the knowledge of English language at intermediate level. As a result, many graduates and young people can communicate in English normally.

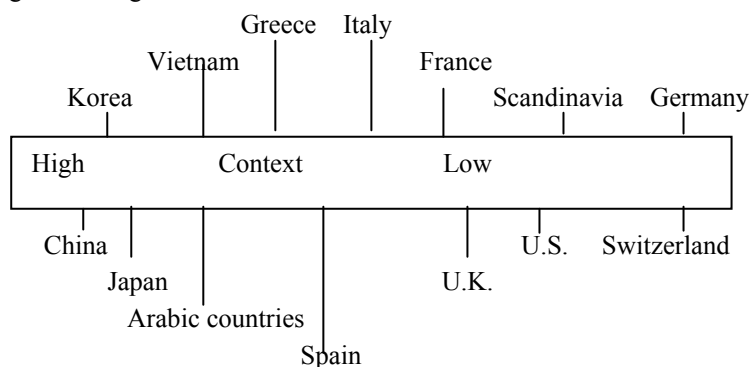
The main religions in China are Buddhism, Islam, and Christianity in both its Catholic and Protestant forms, China's indigenous Taoism (Daoism). Freedom of religious belief is a fundamental policy of the Chinese government.

Subject to low and high context cultures theory (Hall, 1977, p. 203), it manifests the clear distinction between them, in Hall's own words:

“In a high context culture, much important information is conveyed beyond and outside the words actually spoken. In order to understand fully what is going on in a high context cultural setting, an individual needs to be able to interpret body language and have a high degree of sensitivity to ambiguity, an ability to read between the lines and a knowledge of the unwritten or unspoken rules of communication”.

Meanwhile, “in low context cultures, communication is explicit, clear and unambiguous. Individuals from such cultures come directly to the point and say precisely what they mean”. From this point of view, other economists classified China as a high context culture.

Figure 1: “High-context” vs “low-context” national cultures



Source: A. Gerald. International Marketing A Global Perspective, 2006, p. 194

3. General introduction of the firm – the mother company T.T.O. and its daughter company Sinositec

Sinositec is a wholly Slovene invested company, whose investor is T.T.O. It is located in Shandong province, Qingdao city.

As the mother company, T.T.O is created at 1957 as a weaving-mill and the lamination

production was introduced in 1966. T.T.O has more than 30 years of experience in lamination of different kinds of products, such as products for the automotive industry, shoe industry and so on. In 1985, a production of non-woven swell-able tape has been included in the production program for cable-related industry. The close cooperation with cable manufacturers on one hand and with the producers of basic materials on the other made T.T.O to be one of the world leading producers. Like presented in T.T.O's company introduction, it has around 14% of EU automotive-related industry market share and 6% world market share in cable-related industry, which count for 70% and 26% of T.T.O's production program (Tekstilna Tovarna Okroglica d.d. Presentation, 2006).

Figure 2: Map of China and location of Qingdao



Source: Qingdao Sinositec Company Profile, 2007.

Along with the enlargement of the customer base, T.T.O gradually reaches its full production capacity. Expansion is inevitable and should be carried out as soon as possible. As I have already introduced in chapter 2, FORI BS, the majority owner of T.T.O, has a long interest in investing in China, whose preferential has great influence on T.T.O's business level strategic decision-making. FORI BS participates in different industries. Its products range from small home appliances, like water kettle, fan heaters, mixers, to yacht franchising, and to fashion wears. It has purchased many different kinds of commodities and raw materials from China and has considered breaking into Chinese market in the near future. Since the cooperation with Chinese suppliers becomes closer and more often, setting up a regional headquarter to implement the business activities with Chinese suppliers becomes indispensable. However, creat a headquarter in such distant country is costly and risky. Therefore, T.T.O's investment project, in another word, Sinositec, is a transition station for this. Meanwhile, it is also for T.T.O's own best if it chooses to invest in China. Water blocking tapes are nearly tailor-made products for each specific buyer. Thorough understanding of the product features by the manufacturer as well as its suppliers is necessary and essential. However, since the production

of chemical bonded non-woven is still empirical work in China, it demands close examination of goods quality.

Before establishing the daughter company in China, overwhelming information was exchanged through electronic service, such as e-mail, telephones and visual aids by express. It is already difficult by itself to articulate something in foreign language since the communication is carried in English – a third language out of Chinese and Slovene. Problems occur from time to time caused by misunderstanding or lost in translation. In addition, if the problem is complicated in nature, it takes months to solve it, by specifying material requirements to Chinese producers, clarifying the material features, sample checking by T.T.O, confirming by the T.T.O/re-specifying and double checking if the correction measure is not good.

After the daughter company being established, face to face communication from T.T.O's technician to suppliers' technician is possible. Physical illustration can be carried on beyond verbal interpretation. This efficiently shortens the trouble shooting time interval.

Another stimulus of investing in China is the relative cheaper labor force (see table 4, p. 6). Before entering in Chinese market, T.T.O has made an online research of the yearly average labor cost in Qingdao, since the national average salary does not reveal the real situation in various cities and Qingdao is on the top of T.T.O's choice.

After considering all these factors, T.T.O decided to realize the investment in China. With the assistance of investment promotion bureau of Qingdao municipal government, T.T.O registered its daughter company in QD development zone in 2006, 300 KM distance away in circular with its major suppliers.

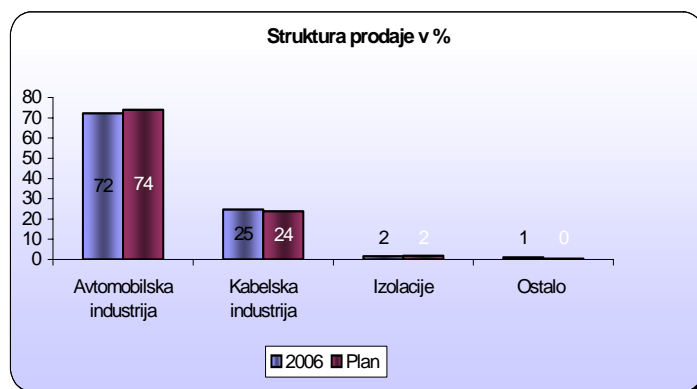
After one-year preparation, the production started in August 2007. At the beginning phase, Sinositec produces only industrial textile for cable industry. The product is called water-blocking tape, brand name TOP tapes™.

As part of Sinositec's mission description (Sinositec Feasibility Plan, 2006, p. 7), at the first 2-3 years, Sinositec would only produce for T.T.O. It acts as an order-taker and all the manufactured goods will be shipped to T.T.O's premise or to the appointed destinations according to T.T.O. Target buyers are industrial cable manufacturers, which produce power cables, optical fiber cables and telecom cables, as well as other special cables in EU markets and other existing markets. For each specific buyer, T.T.O will issue technical specification and Sinositec's products would be customer-oriented. From this point of view, Sinositec together with T.T.O deal with business to business market. One thing need to be noticed, since Sinositec is known as the daughter company of T.T.O. And T.T.O is the exclusive buyer of Sinositec's products at this moment. Moreover, Sinositec explores and enquires raw materials and carries out procurement on behalf of T.T.O. It seems to outsiders that he is just dealing with one company, which is T.T.O group.

In order to standardizing and maintaining the promise of high product quality, T.T.O managed to get Sinositec identical production equipments from the same manufacturers. Besides, T.T.O carries strict training courses to Sinositec production workers. Technicians from T.T.O come to Sinositec on weekly basis to train the workers by illustrating production line functions, working orders, and crisis management and so on, so that Sinositec's workers could obtain the same working skills as in T.T.O. This in return, also facilitates T.T.O's control over Sinositec's daily operations, for every step is being determined and predictable.

At this moment, an independent research report revealed “there are more than 150 cable factories in China, which are controlled by companies in the leading Top 100 cable makers worldwide”, the most important comment on the Chinese wire and cable manufacturers is that there are more than 15-20 companies in the Top 100 producers, and more than 30 in the Top 100-200 cable makers (Wire and Cable Financial Insight 2006, 2006). By interpreting this message that China has already become a huge market for cable-related business, there must be also booming market of derived commodity market, such as non-woven, carbon black as well as other materials. Therefore, Sinositec might have greater chance to harvest potential raw material suppliers by just being existing in Chinese market.

Figure 3: Production program in T.T.O.



Source: T.T.O. company presentation, 2006.

4. What T.T.O group produces and offers to EU market

4.1 Product Introduction

As its name tells the truth, water-blocking tape is mainly used to block water, in order to prevent further intrusion. Damages of the bark covered on power or communication cables causing the water penetration into the cable. This cable damage is normally the result of the mechanical influence in installation, insulation defects, or in missing connectors and sleeves. The intrusion of water, especially detrimental in the shield area of the cable, where the water quickly moves along the length of the cable, is causing a significant damage over a long distance.

Thus, the application of water-blocking tapes for power and communication cables makes it possible to produce a water-tight cable design. If the water penetrates into a cable, manufactured with swell-able non-woven, the super-absorbent layer immediately swells and blocks a further expansion of water. Due to the rapid swelling of the super-absorbent component, voids within the cable are sealed immediately, preventing water movement and keeping the potential damage localized.

Characteristics of water-blocking tapes

- high mechanical resistance
- rapid swelling properties
- thermal resistance during the manufacture and the operation of the cable
- resistance to corrosion
- resistance to microbes and moulds
- high consistency of all properties
- no rising of dust during the application

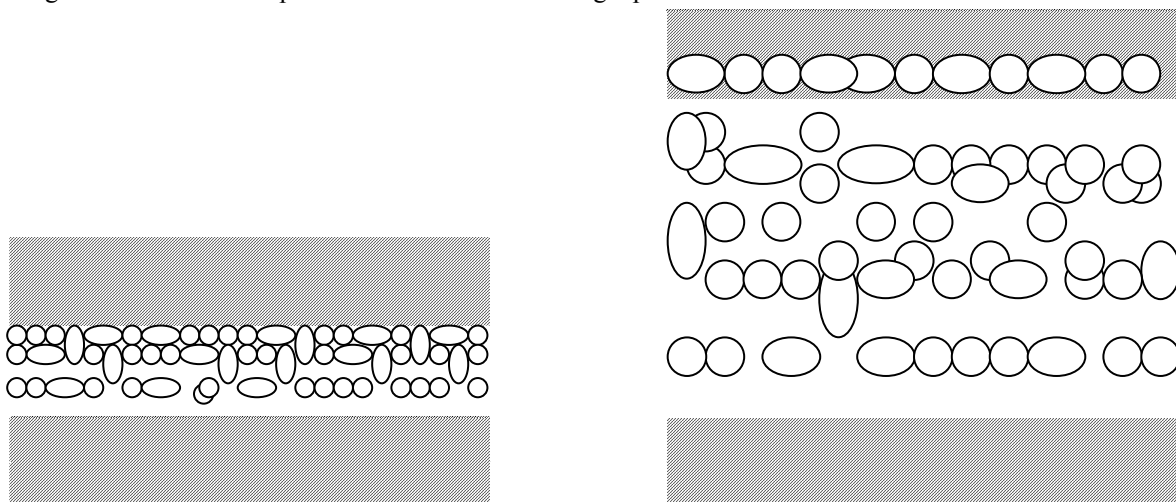
Source: T.T.O R&D department documentary, internal sources, 2007.

Figure 4: TOP tapes™ (Brand name)



Source: Qingdao Sinositec archive, 2007.

Figure 5: Illustration of presentation of water-blocking tapes before and after the contact with water.



before

after

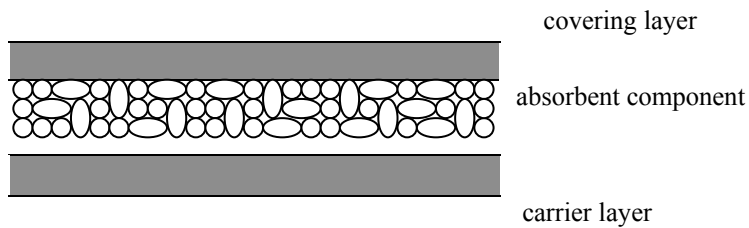
Source: T.T.O R&D department documentary, internal sources, 2007.

Construction of water-blocking tapes

These water-blocking tapes normally consist of three layers:

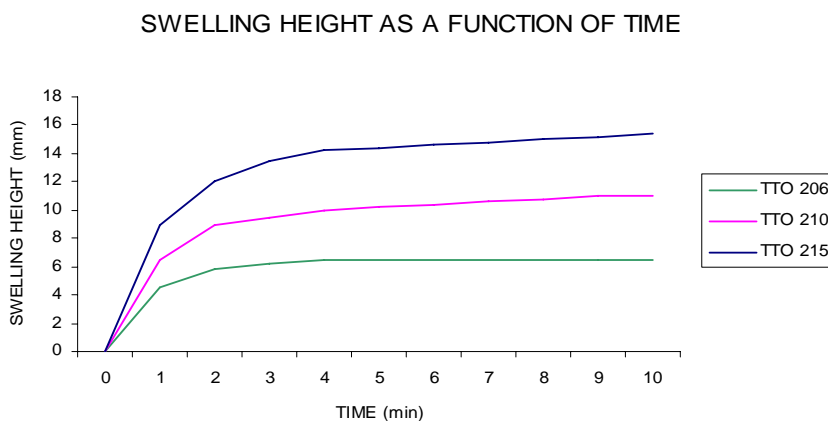
- the carrier layer consisting of polyester non-woven
- the layer consisting of super-absorbent component
- the covering layer consisting of polyester non-woven

Figure 6: The structure of double-layer water-blocking tape.



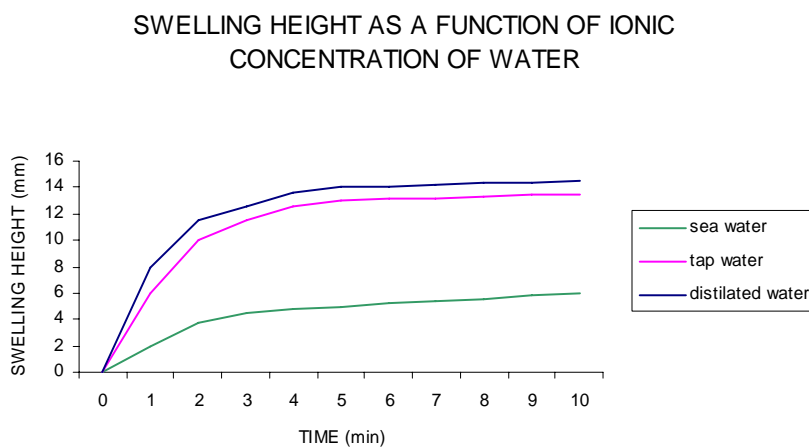
Source: T.T.O R&D department documentary, internal sources, 2007.

Figure 7: Swelling height as a function of time



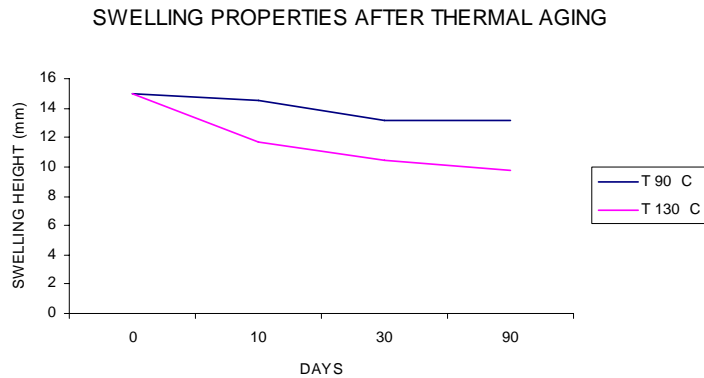
Source: T.T.O R&D department documentary, internal sources, 2007.

Figure 8: Swelling height as a function of ionic concentration of water



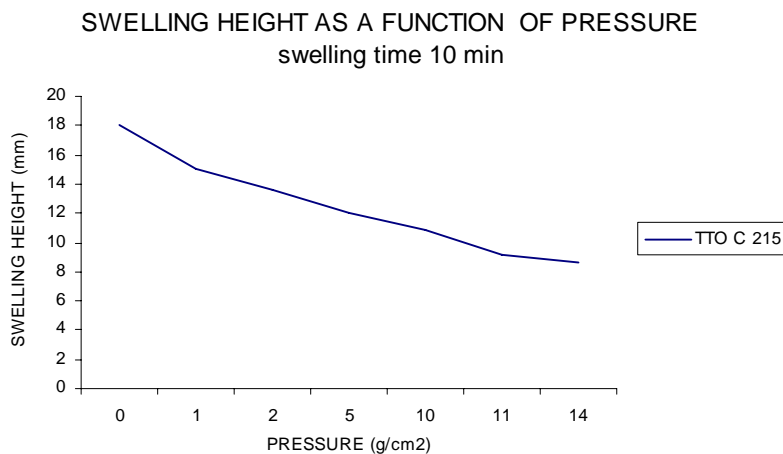
Source: T.T.O R&D department documentary, internal sources, 2007.

Figure 9: Swelling properties after thermal aging



Source: T.T.O R&D department documentary, internal sources, 2007.

Figure 10: Swelling height as a function of pressure



Source: T.T.O R&D department documentary, internal sources, 2007.

4.2 Functions of WBT tapes inside cables

Power and communication ensure the successful operation of literally millions of indispensable systems. Without these essential connections, our society would not be what it is today. The designers, cable contractors and users of cable systems have an enormous vested interest in their long-term fault free operation. Responsibilities of power and telecommunications authorities are permanent and ongoing. The provision of services does not end when the connections are made. The systems have to be kept running under often difficult conditions. Reliability of components and easy maintenance and repair are major considerations. T.T.O group is an international organization of non-woven manufacturers and experts in the industrial application of non-woven. The cable industry is a large-scale user of these non-woven materials.

With its special design, TOP tapes satisfy the most demanding cable manufacturers' needs on

mechanical, electrical, chemical and thermal properties. TOP tapes™ has achieved world leading cable manufacturers' specifications and is the supplier of many top 100 world leading cable manufacturers. The fact manifests itself that only high quality WBT manufacturer can pass cruel selection to become partner of dominant cable manufacturers.

Table 5: Wrapping properties

Mechanical	Ideal for helical winding and longitudinal wrapping.
	Excellent cushioning/bedding ability to prevent the hot mass of petroleum jelly from dripping out.
	Good separation since non-woven in a cable will not move.
Electrical	Thorough impregnation with carbon black offering higher conductivity
Chemical	Do not react chemically with any cable component.
	Resistance to semi-conductive varnish solvents, vulcanization aids and peroxides.
Thermal	Contribute to the proper functioning of cables during overload/emergency (130°C) and short-circuit conditions (up to 350°C) .

Source: Adapted from T.T.O internal sources, 2005.

The high quality character of TOP tapes™ ensures smooth cable production. High machine efficiency can be achieved because of non-woven tapes:

- do not crease or shift
- do not fray
- offer high flexibility
- are suitable for both longitudinal wrapping and helical winding
- offer high elongation

Cables with non-woven wrapping TOP tapes™ offer major benefits including (Source: T.T.O internal sources, 2007.):

- high flexibility offering increased operational life for rubber cables exposed to constant bedding stress
- easy cable jointing (insulation and sheath can be readily separated)
- no sensitivity to moisture
- excellent bedding effect
- excellent metal screen and semi-conductive layer

Because TOP tapes™ product is quality-driven, its price is usually 10-15% above average market price. Therefore, large-scale cable manufacturers are T.T.O's focus. Since they are quality-conscious and can afford higher price, which exactly matches T.T.O's positioning of TOP tapes™. In addition, since cable manufacturers' business is across borders, so are their production plants. For example, Prysmian has 52 plants in 21 countries and 5 continents (Prysmian, 2008). Corning cable system, another case, has plants in 4 European countries and

his business is also across Europe, Pan Asia, Middle East and America (Corning, 2008). According to T.T.O's experience, bringing the cooperation background and contact of one factory within the same group is very helpful to knock the door of another factory, consequently, obtain bigger chance to win the bid. This module is called inside out approach.

Table 6: Customer list of T.T.O

1.		Brugg: based in Germany, major in power cables and telecom cables;
2.		NKT cables: world top 20 cable manufacturers. Original from Germany, major in power cables;
3.		OFS: a Furukawa Company, world top 10 cable manufacturers, original from Japan, major in optical fiber cables.
4.		General Cable: world top 10 cable manufacturers. Original from U.S.A.
5.		Prysmian: world top 10 cable manufacturers.
6.		Hes Kablo: based in Turkey, one of the major players in domestic market.
7.		Corning cables: world top 10 cable manufacturers. Original from U.S.A, major in power cables.
8.		Gulf cable: major players in middle east market.
9.		Elka cable: based in Croatia.
10.		
11.		ECN: based in Spain, leading players in domestic market.
12.		Telnet communication system.
13.		Sudkabel: based in Germany, major in power cables.

Source: Adapted from T.T.O internal sources and internet, 2007.

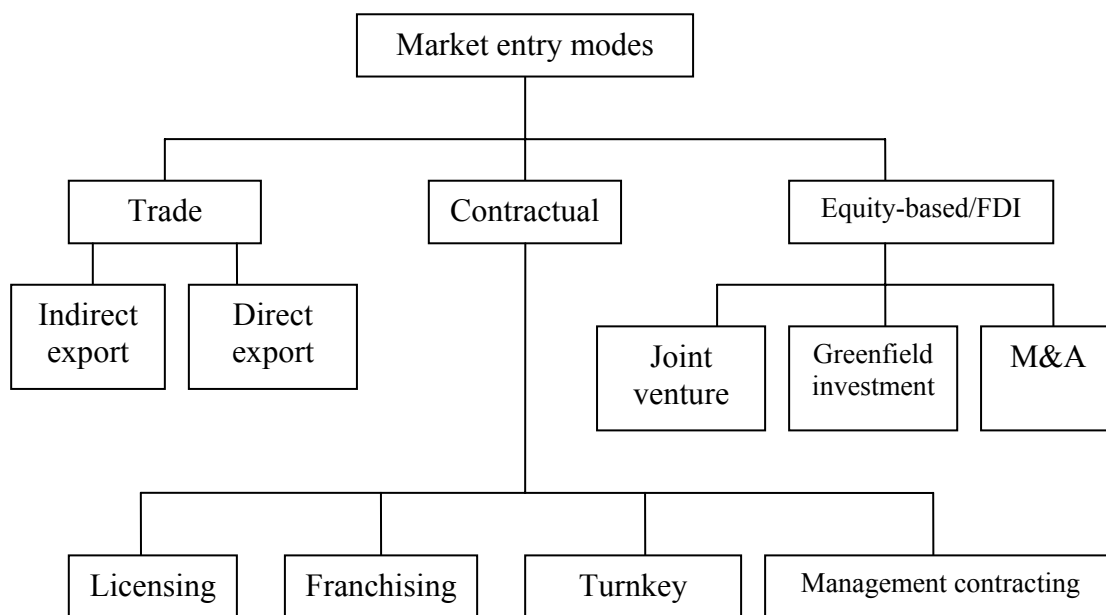
5. Theory of entry modes and their implementation in China

Once the decision of investing in China has been made, how should T.T.O implement it? To what extent it should be engaged in this investment and what are the consequences. These are the questions to be answered in the following chapters.

5.1 Definitions of entry modes

There are three general categories of entry modes which reflect different degrees of involvement in foreign markets (Muhlbacher, etc. 2006. p. 116). Figure 11 displays these three categories from the least to most involvement with the investment.

Figure 11: Modes of entry into international markets



Source: H. Muhlbacher, H. Leihs & L. Dahringer. International Marketing A Global Perspective, 2006, p. 116

The Uppsala model identifies four steps in the establishment and extension of its operations, a process referred as ‘the establishment chain’:

1. no regular export activities
2. export via independent representatives or agents
3. the establishment of sales subsidiaries
4. foreign production and manufacturing

According to this model, initial movement abroad is carried out by independent exporting agents or representatives. This entails the producer in a limited resource commitment and a lesser risk than immediately setting up a wholly owned sales subsidiary (stage three) in a market of which the incumbent has little knowledge. Indeed, underpinning this model generally is the assumption that moving through the different phases of development depends on the acquisition of the expertise and knowledge that enables the firm to move onto the next internationalization stage. Firms only move to the final stage of the establishment chain (foreign production and manufacturing) when they have international expertise through other activities and specific knowledge of a particular location.

Though the model may not apply in all circumstances, it is useful. First, it points out that firms are more likely to seek international opportunities when their founders or senior management already have international business experience or are internationally minded in some way. Second, and more importantly, it establishes the principle that firms engage in international activity in a way that gradually commits them to more intensive and extensive involvement. The model sets out a four-stage process. In a sense, the precise details of each stage of the process do not matter as they vary from case to case. What does distinguish each stage of the process though is the degree of involvement.

5.1.1 Trade entry modes (Export entry modes)

According to Uppsala model, exporting is relatively straightforward and less risky than other forms of internationalization and offers a relatively cheap and simple exit strategy if required. With export entry modes a firm's products are manufactured in the domestic market or a third country and then transferred either directly and indirectly to the host market. It is the most common mode for initial entry into international markets. Sometimes an unsolicited order is received from a buyer in a foreign country, or a domestic customer expands internationally and places an order for its international operations. This prompts the firm to consider international markets and to investigate their growth potential. Exporting is thus typically used in initial entry and gradually evolves towards foreign-based operations. In some cases where there are substantial scale economies or a limited number of buyers in the market worldwide, production may be concentrated in a single or a limited number of locations, and the goods then exported to other markets.

In establishing export channels a firm has to decide which functions will be the responsibility of external agents and which will be handled by the firm itself. While export channels may take many different forms, for the purposes of simplicity two major types may be identified: indirect and direct export marketing groups (Trade, see Figure 11).

Indirect export mode:

The exporting manufacturer uses independent organizations located in the producer's country. Such an approach to exporting is most likely to be appropriate for a firm with limited international expansion objectives. In this approach, responsibility for carrying out the export function, including completion of export documentation and distribution, is delegated to third parties.

Five main entry modes of indirect exporting:

- export buying agent
- broker
- export management company / export house
- trading company
- piggyback

Direct export mode:

Direct exporting occurs when a manufacturer or exporter sells directly to an importer or buyer located in a foreign market area. This will involve building up overseas contacts, undertaking marketing research, handling documentation and transportation, and designing marketing mix strategies. Direct exporting modes include export through foreign-based agents and distributors. Distributors take title to the goods, and are paid according to the difference between the buying and selling prices rather than by commission. Distributors are often appointed when after-sales service is required. An agent handles the exporter's goods along with other non-competing goods and works on commissions (paid by the exporter) at a pre-agreed basis. The agent represents an exporting company and sells to wholesalers and retailers in the importing country. The exporter ships the merchandise directly to the customers, and all arrangements on financing, credit, promotion, etc., are made between the exporter and the buyers.

5.1.2 Contractual entry mode (Intermediate entry modes)

Intermediate entry modes include a variety of arrangements, such as:

- licensing
- franchising
- management contracting
- turnkey contracts

A licensing agreement is an arrangement wherein the licensor gives something of value to the licensee in exchange for certain performance and payments from the licensee. Licensing is an attractive, albeit limited, form of market entry and is most common in high-technology and R&D-intensive sectors such as pharmaceuticals, chemicals and industrial and defense equipment (Borden, 1997. pp. 2-7)

Franchising is a marketing-oriented method of selling a business service, often to small independent investors who have working capital but little or no prior business experience. Types of business format franchise and personal services, convenience stores, car repairs and fast food.

Management contracting is popular in the hotel sector, public utilities, health care, transportation, agriculture and mining, and in the international context, it entails the supply of management functions to a client in another country. A wide range of such functions, including general, financial, personnel and production management can be traded in this way. The major benefit for the client comes not only from access to proven skills and expertise but also from the transfer of skills and learning resulting from the contract. Indeed, a central part of many contracts involves management training of the local work force with a view to localization of management at some future date and the avoidance of long-term reliance on third parties for key functions. The danger for contractors is that they are potentially training

their future rivals and competitors.

A turnkey operation entails the construction of an operating facility under contract that is then transferred to the owner who only has to 'turn the key' to enter the facility and begin operations when the facility is complete. Turnkey contracts are used in the construction of large infrastructure or industrial development projects such as power plants, dams, airports, oil, refineries, roads, railways, seaports, telecommunication systems.

5.1.3 Equity-based or FDI modes (Hierarchical entry modes)

Equity-based modes have no specific time restrictions, although equity stakes can be sold, and offer the company more control and a much more direct engagement in a foreign market than many contractual modes, although they often represent an extensive degree of involvement in a foreign market. Typical equity-based entry modes are:

- joint ventures
- green field investment
- mergers & acquisitions

A joint venture is a long-term alliance in which each member has an equity stake and exercises control and influence over decision-making. In general, joint ventures enable partners to achieve objectives that are difficult to achieve independently. Joint ventures can offer more rapid and successful entry into a new location than trying to enter it alone. These benefits may spring from a partner's local knowledge, the presence of existing distribution channels or the increased likelihood of a successful tender because of the presence of a local partner.

Merger with or the acquisition of a company located overseas provides a rapid way of engaging fully in a foreign market. Potential benefits of M&As include immediate access to plant, equipment, personnel, goodwill, brand names, distribution channels and established networks of suppliers and customers, important assets that need to be painstakingly built up in the case of greenfield investment, M&As do not require the development of new capacity. On the less positive side, the success rate of M&As is not high.

Along with mergers and acquisitions, greenfield investment represents the final link of the establishment chain. Greenfield investment, the construction of an overseas subsidiary or production facility from scratch, entails the greatest degree of commitment and involvement in a foreign market. The choice of Greenfield investment over an acquisition in a particular location may be made because of the inherent benefits of the former or simply because there is no purchase candidate available.

5.1.4 T.T.O's investment entry mode in China

According to Hollensen's export model, four factors are used to judge which entry mode is

appropriate for T.T.O's investment in China (see Figure 12).

- Internal factors
- External factors
- Desired mode characteristics
- Transaction-specific factors

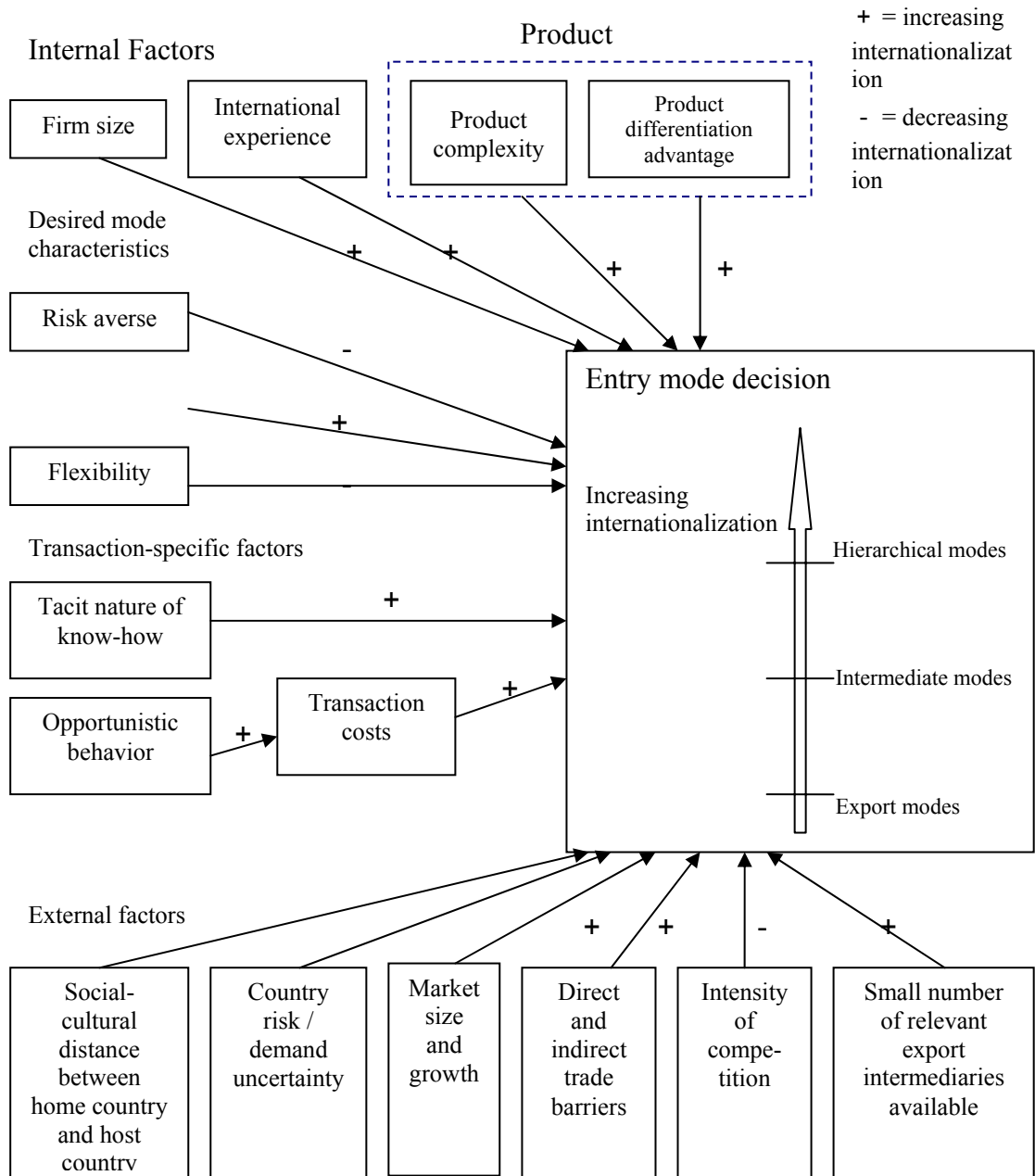
A firm's choice of its entry mode for a given product is a net result of several forces. Factors that can influence a firm's choice have been displayed in the figure below.

T.T.O today has around 80 employees. It is a middle sized enterprise. However, it has a long time history in operating in international environment, especially the cooperation with two Chinese suppliers since the beginning of 2005 brought T.T.O a basic picture of Chinese way of handling business. Moreover, the value/weight ratio of the final product is low (US \$6/Kg-US \$15/Kg) calculated from Sinositec's product sales prices and packing info. Based on the company sales plan in China and southwest Asian countries in the near future, the shipment cost would be very high comparing to the value of containerized products. In addition, because the final product is tailor-made and easily damaged during transportation, after-sales service (warranties and replacement policies) need to be taken quickly and carefully. This in turn, requires resource commitments to foreign markets. Export entry modes, with their low resource commitment, may therefore not be suitable; intermediaries, on the other hand may not be able to handle after-sales work.

Moreover, Slovenia and China have quite different business practices and cultural characteristics, by which can cause internal uncertainty for the firm. Hierarchical modes provide bigger management control and help transferring the firm's home country's business structure and corporate culture to its host country subsidiary and minimize the misunderstanding or uncertainty caused by the cultural differences in daily operations. Attention also needs to be paid that China, as an emerging market, has enjoyed in a sound economy for more than two decades. And the Chinese government handles stable, consolidated leadership, no turbulence, no scandals. Country risk has been ranked in category C from minimum A to maximum E (China information, 2007).

Valued at US \$150.65 billion in 2006 and having recorded a growth of 13.2% year-on-year basis, the Chinese construction industry will grow at an average rate of 7.54% in the period 2007-2011 (China Infrastructure Report Q307, 2006). China is definitively a lucrative market for cable complementary products, despite that T.T.O group does not sell in China, it is considered to be a potential.

Figure 12: Factors affecting the foreign market entry mode decision



Source: S. Hollensen, Global Marketing, 2004, p. 280

The infrastructure sector of China - one of the fastest developing economies in the world - is playing a key role in the growth of the country's industry and tourism segments. The 11th plan (2006-2010) focuses primarily on developing major infrastructure projects, which include port-related construction, road and transport infrastructure, oil utilities and development of water infrastructure. Special emphasis is being laid on airport development and upgrading work. By the end of 2007, China expects to complete work on as many as 73 airports. And this has greatly influence on T.T.O's entry mode choice. Since WBT is complementary product of cables, which are mainly used for infrastructure construction. As I also mentioned in chapter II that China practices preferential tax treatment to foreign invested companies, this in turn, stimulates T.T.O's FDI decision.

Table 7: Classification of entry modes

MODES	Export Modes	Intermediate Modes	Hierarchical Modes
RISK; CONTROL; FLEXIBILITY; INVESTMENT VOLUME	Export Management Company (EMCs), Export Trading Company (ETCs), Piggyback; Agents, Distributors	Licensing; Franchising; Contract Manufacturing; Joint ventures	Domestic-based sales representatives; Foreign-based sales operations; M&A; Brownfield Investment; Greenfield Investment;
	Risk *; Cost *; Control *; Flexibility ***	Risk **; Cost **; Control **; Flexibility **	Risk ***; Cost ***; Control ***; Flexibility *

Source: S. Hollensen, Global Marketing, 2004, pp. 291-366.

Classified by the mode characteristics of risk, control and flexibility (see Table 7). T.T.O wants to show its commitment to potential customers. For hierarchical entry, it involves substantial equity investment, and is typically the most costly but the least flexible and most difficult to change in the short run, which also provides the most control over operations.

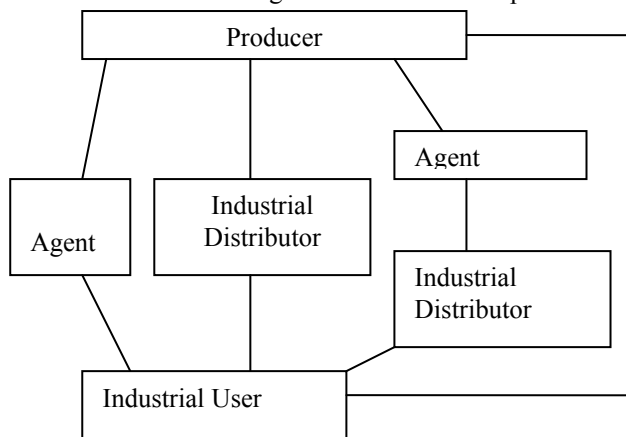
Qingdao has been chosen also because of its advantage of being the third biggest port in China. Direct weekly liner container ships travel between Qingdao and Europe. Traveling time and custom clearance time to either Slovenia or to other European countries are quite predictable (around 35-45 days plus 3-5 working days of custom clearance period) and could be tracked normally by internet. Last but not the least, the location of Sinositec has been picked up on purpose of 15 minutes away by car from the port.

5.2 Export practice between China and EU market

In general, companies use one or more of the following distribution systems or entry modes:

1. The firm sells directly to customers through its field sales force or through electronic commerce.
2. The company operates through independent intermediaries, usually at the local level.
3. The business depends on the outside distribution system that may have regional or global coverage.

Figure 13: Distribution configuration for industrial products



Source: M.R. Czinkota. The Export Marketing Imperative, 2004, pp. 170-171.

5.2.1 Mode of re-export with added value

Several entry and trade modes need to be mention, with which almost all Chinese manufacturers deal with international trade. These approaches include processing trade, regular trade, and duty free trade and so on. Processing trade is subdivided into two types. One is subcontract with imported raw material for processing trade and the other is subcontract with material assembling.

Subcontract with imported raw material for processing trade purpose (Jin Liao Jia Gong) means manufacturer imports part of or all raw materials and re-exports its final products separately. Raw material suppliers and customers are irrelevant. Business activities are conducted through sales-purchase contracts.

Subcontract with material assembling purpose (Lai Liao Jia Gong) means that manufacturer signs one contract with one foreign buyer. The contract legally defines that the buyer will supply all the raw materials and defines the pattern, production quantity and quality of the final goods. The contractor earns labor force compensation plus a little margin by assembling the final products and re-exports it to the foreign buyer.

In EU terms, this type of trade usually belongs to intermediate modes of entrance to the market.

Table 8: Similarities and difference between import processing trade and material processing trade subcontracting approach

Similarities:	Imported raw materials
	Not subject to domestic VAT or tariff
	Same motive: export the final products to exchange foreign currency
	For imported materials there is no need for applying (import) permission at local government
	All need to login and opening processing trade manual in custom office and filing for import data and cancel after (custom) verification.
Differences:	Assembling contract is a bilateral contract and there is only one contract. It has one buyer meanwhile he is also the supplier of raw materials. Country of origin and destination is the same. While processing trade contract may have different buyers, multiple(more than one) buyers and variant destinations of export.
	Raw materials imported by assembling contract are based on authorization relationship (Wei Tuo Guan Xi); while processing trade contract is based on sales-purchasing relation.
	For assembling contract, the buyer (truster) decides all the necessary production information, such as quality, quantity, pattern and other factors; while processing trade contract the manufacturer decides what to produce. Obviously, regard assembling contract 5 W (what, when, where, why, how) is decided by the purchaser; while in processing trade the manufacturer decides the 5 W.
	To be continued

	Contractor of assembling contract doesn't need to worry about sales and revenue of the production program. When the production is finished, he will get the amount of payment decided before by contract. It's less risky; while contractor of processing trade has to take care of sales volume and maximizing profit. Regardless revenue or loss, the manufacturer takes the burden.
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Source: Adapted from From Introduction to Mastery of Tax Exemption, 2006.

Sinositec works on subcontract with imported raw material for processing trade basis. It has separate suppliers of raw materials and buyers. At this moment, T.T.O is the exclusive buyer. All the business transactions between Sinositec and T.T.O are considered as intra-trade.

5.3 Processing trade manual

According to Chinese general custom's requests, it is necessary to open a kind of manual for processing trade. This manual helps local custom house to identify and track the company's import-export situation: what one company uses for raw materials (imported items only), mathematic formula of calculation usage of raw materials and transforming into final products (the transformation formula), percentage of each input as well as percentage of waste measurement, product item with custom HS code, and so forth ³(see Appendix 1).

Company who wants to get a manual needs to apply for it with documents such as processing trade sales-purchase contract, technical information, business license, foreign invested manufacturing company specified status and custom registration No. Local custom house verifies all the documents and within 15 working days replies whether the case is rejected or proved. In case if there is any question about the production techniques, the company's technician has to explain the technical delineation in the local custom house in person.

Below is a complete illustration of manual function:

According to processing (duty free) — re-export (duty free) principle, manual for processing trade is only a document that keeps the manufacturing company away from current host country taxation. The manual records all the relevant information about imported goods and corresponding amount of export-to-be goods. Normally, the period of validity of manual varies from 12-18 months, and this period could be prolonged for another 6 months. This means within the validity time interval all the imported goods of one manual will be dismissed duty-free by local custom house, as well as the final products made from these materials, however, the final products must be exported abroad within 24 months, otherwise, the tariff of imported goods would be charged and the manufacturer needs to pay the tax liability afterwards.

The supervision of imported materials, as well as the supervision of leftover/waste items end up together with the closure of processing trade manual, namely, cancel after verification.

³ Note ①: Each year the Chinese General Custom House issues <Customs Import and Export Tariff of the People's Republic of China>, in which the goods type and relevant HS code are clearly decided/advised.

One thing need to be emphasized, leftover is subject to the current taxation system under tariff category and VAT tax.

5.4 Documents for export from China to Slovenia/EU market

For every single export related with processing trade, the manufacturer needs to prepare a set of documents corresponding with Chinese custom's requirements. The standardized documents are:

- The sales-purchasing contract in Chinese language (Gou Xiao He Tong) . It provides clear information of buyer and seller, contracting merchandise, purchasing amount, unit value, total value, parity term, delivery date, payment term, which is required by the custom house together with declaration list (see Appendix 2) .
- Original manual of processing trade in Chinese language? (Jia Gong Mao Yi Shou Ce). According to this, the custom house keeps tracking on usage of both imported materials and export merchandise (see Appendix 1).
- Export custom declaration list in Chinese language (Chu Kou Huo Wu Bao Guang Dan). Usually, small and middle size companies do not have specialized workers handling the declaration process in custom house which they turn to local logistic agencies for assisting them to go through it. The manufacturer must declare that he or she voluntarily authorizes one agency to handle the custom declaration procedure (see Appendix 3).
- Invoice, both in Chinese and English language (Fa Piao). It includes full information about the shipping goods, such as total value of the goods, packaging information, and parity term and delivery date. Invoice must be prepared before shipment (see Appendix 4).
- Packing list both in Chinese and English language (Zhuang Xiang Dan). It should be provided and completed by the shipper at the time the goods are dispatched and accompanies the goods and the carrier's documents, consignment notes throughout the transit. The packing list gives the details of invoice, buyer, consignee, country of origin, vessel or flight date, port or airport of loading, port or airport of discharge, place of delivery, shipping marks, container number, weight and/or volume (cubic) of the merchandise and the fullest details of the goods, including packaging information (Branch, 2000. p. 327, see Appendix 5).
- Bill of lading in English language (Ti Yun Dan) for sea shipment. A bill of lading is a receipt for goods shipped on board a vessel, signed by the person (or his or her agent) who contracts to carry them, and stating the conditions in which the goods were delivered to (and received by) the ship. It is not the actual contract, which is inferred from the action of the shipper or ship-owner in delivering or receiving the cargo, but forms excellent evidence of the terms of the contract. It is a document of title to the goods which is the subject of the contract between the buyer (importer) and the seller (exporter). It is the most important commercial document in international trade, and is used to control delivery of goods transported by sea. (Branch, 2000, p. 301, see Appendix 6).
- Cancel after verification list (one invoice, one list) in Chinese language (He Xiao Dan). This document is issued by State Administration of Foreign Exchange (Wai Hui Guan Li Ju). This list is applied along with declaration list to custom house and is structured based on

contract, the company would either pay or receive foreign currencies depending on he is doing import or export. Every company should apply psychically at the first step in regional custom house to get a custom identity code, with which the company is recognized nationwide. Then, the company could take the electronic form confirming further detailed information under the administration of SAFE. After getting on-line confirmation from SAFE, a written one needs to be fetched in the local administrative office. Cancel after verification list has validity period, normally, within 90 days after discharging/sailing of goods (see Appendix 7).

- Air waybill (either B/L or Air Waybill). The air waybill is the consignment note used for the carriage of goods by air. It is often called an air consignment note and is not a document of title or a transferable or negotiable instrument.

In practice, the exporter should start the custom declaration procedure at least 2 weeks before export. However, because of business cycle weather in high season or low season; and place of application, different region has slightly different regime, this period is just informational.

On the other side, Slovene custom house requires for import from P. R. China at least documents as below:

- Contract/Order information in English language,
- Invoice or Commercial invoice in English language,
- Packing list in English language (sea transportation),
- Bill of lading in English language.

It is worthwhile to noticing that additional documents may need according to different industry standards, for instance, certificate of origin (textile industry), CE certificate and CE mark on merchandises (electrical industry, goods for work protection program), and export license sometimes is demanded as well.

Moreover, under the current Slovene custom regime, WBT depends on the per unit weight all under HS code 5603 category, for example 5603.9290; 5603.9390. The last 4 digits reflect differences in weight.

5.5 Documents for import from Slovenia/EU market to China

As mentioned before, the processing trade manual helps China custom house keeps track on import of raw materials and export of final products. After taking a look at export of goods from China to Slovenia, the knowledge of how the import of raw materials from Slovenia to China proceeds is also essential.

5.5.1 Import from Slovenia by air

Air Waybill is most important document. And, along by, the sender will enclose one copy of commercial invoice, on which the name of product item, quantity, weight and other package

information are clear informed. By far, UPS, DHL and FedEx are the most favorable carriers for international air transport such as documents and packages in China. At the moment it represents around 2% in volume term of total Chinese trade (CCTV News, 2007). Usually, it takes 2-3 days that the parcel arrives in the appointed city center and depends on the nature of the goods for custom clearance.

Usually, above mentioned air transport operators provide one-stop service, which means export processing, international carriage, import processing, customs clearance and delivery to the factory.

5.5.2 Import from Slovenia by sea

As soon as the sender gets the original bill of lading (B/L). A set of document will be sent to the importer. These are:

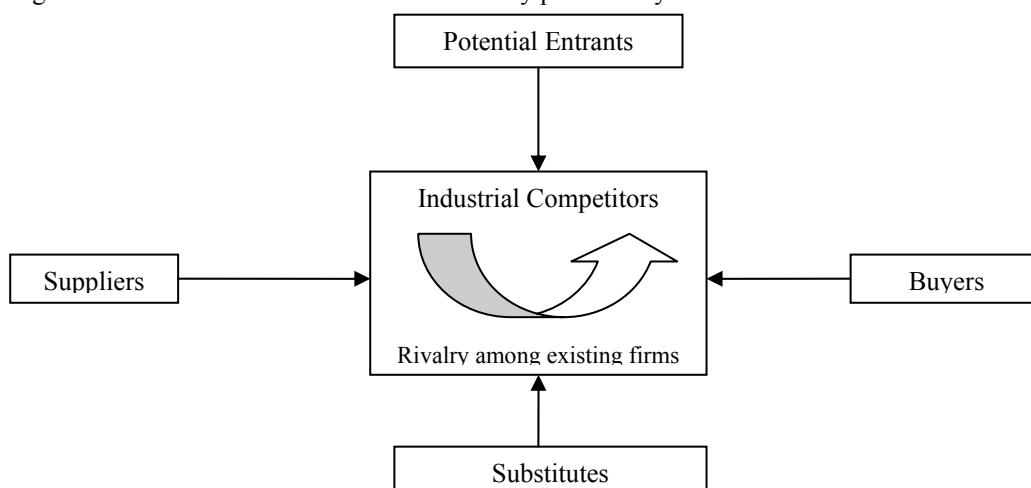
- Original invoice in English language: It includes full information about the shipping goods, such as total value of the goods, packaging information, and parity term and delivery date and it must be ready before shipment.
- Packaging list in English language: It's provided and completed by the shipper at the time the goods are dispatched and accompanies the goods and the carrier's documents, consignment notes throughout the transit. The packing list gives the details of invoice, buyer, consignee, country of origin, vessel or flight date, port or airport of loading, port or airport of discharge, place of delivery, shipping marks, container number, weight and/or volume (cubic) of the merchandise and the fullest details of the goods, including packaging information (Branch, 2000, p. 327).
- Bill of Lading in English language: A bill of lading is a receipt for goods shipped on board a vessel, signed by the person (or his or her agent) who contracts to carry them, and stating the conditions in which the goods were delivered to (and received by) the ship. It is not the actual contract, which is inferred from the action of the shipper or ship-owner in delivering or receiving the cargo, but forms excellent evidence of the terms of the contract. It is a document of title to the goods which is the subject of the contract between the buyer (importer) and the seller (exporter). It is the most important commercial document in international trade, and is used to control delivery of goods transported by sea.
- Custom clearance list in Chinese language (Huo Wu Bao Guan Dan). This document describes detailed information about the shipped goods in value terms – unit price, total value, packaging condition (see Appendix 8).
- Cancel after verification: for payment of the goods to the sender. The same application process and validates for 180 days (see Appendix 7).

There is one thing need to be emphasized, that China custom house is extremely strict with handling of wood packaging material. WPM imported without the International Plant Protection Convention (IPPC) logo will be rejected. Treatment, destruction, or re-export of imported WPM will be required if pests are found. Therefore, it is advisable of using plastic pallets instead.

6. T.T.O's Competition Analysis in EU market

After products have been made by Sinositec in China, they will be shipped back to T.T.O's premise in Slovenia and then further to T.T.O's customers within EU market. According to Porter's model of five forces for examining competition in an industry, let's have an overview about the TOP tapes™ surrounding environment.

Figure 14: the five forces that determine industry profitability



Source: M. Porter. Diamond model

6.1 Competitive rivalry

There are several high-profile international WBT producers, namely, Lantor cable products® (owned by Lantor BV), Geca (PGI group), as well as Shenyang Tian Rong Tape Co. Ltd. – brand name Tianrong, Zhenzhou Vic Water Blocking Materials of Cable Co. Ltd. – brand name VIC Tapes, Chengdu Centran Industrial Co. Ltd. – brand name Centran, operating there. They are all in similar size and capacity, all holding comparable market shares and all seeking to dominate the industry.

Table 9: Main competitors in global WBT market

Brand	Major products	Target buyers
CENTRAN Tapes	<ul style="list-style-type: none"> • Double-side non-conductive WBT • Single-side non-conductive WBT • Double-side semi-conductive WBT • Single-side semi-conductive WBT • Exclusive dealer of U.K. UNIGEL petroleum jelly 	Price-competitive, offers full price range products. Half to Chinese domestic cable producers and half focus on export to Africa, America and the rest of Asian countries.

Lantor cable products®	<ul style="list-style-type: none"> • Semi-conductive WBT • Non-conductive WBT • Tapes for Bedding, Bingding, Cushioning and Hear-Barrier (BBSH tape) • Water blocking yarns 	High-end power cable manufacturers, communication cable manufacturers, and industrial cable manufacturers world-wide.
To be continued		
Brand	Major	Target buyers
Geca-tapes	<ul style="list-style-type: none"> • Semi-conductive WBT • Non-conductive WBT • Film laminated WBT • Binding, bedding and barrier tapes • Woven tapes • Foam tapes • Marine tapes • Yarns & flat binders 	Middle to high rank energy cable manufacturers, telecom cable manufacturers and special cable manufacturers in Europe and America.
TOP tapes™	<ul style="list-style-type: none"> • Non-conductive WBT • Semi-conductive WBT • Semi-conductive WB Buffering tapes • Film laminated WBT • Binding, bedding tapes • WB yarns 	Middle to high rank European cable manufacturers, also focuses on Middle-east and Pan Asia cable producers.
TIANRONG Tape	<ul style="list-style-type: none"> • Film laminated WBT • Semi-conductive WBT • Semi-conductive nylon tape • Low-smoke non-halogen flame retardant tape • Semi-conductive polyester-cotton tape • Water blocking yarns 	Competitive pricing strategy, attractive payment term to Chinese domestic cable producers. Flexible of technical adjustment and technical support, export mainly focuses on American cable manufacturers.
VIC Tapes	<ul style="list-style-type: none"> • Non-conductive tapes • Film laminated WBT • Single-side WBT • Strong WBT • No-dust WBT • Semi-conductive WBT • Semi-conductive WB Buffer tapes • Semi-conductive Nylon tapes • Semi-conductive cotton woven tapes • Semi-conductive Polyester tapes • WB Bedding tapes • WB yarns 	Chinese domestic buyers. Export emphasis on south-east Asia cable manufacturers.

Source: Data were adapted from internet, 2008.

With its major expansion strategy to go abroad, Tianrong WBT tapes offers attractive payment terms of 6 months credit to its buyers and offers volume discount under certain conditions, which poses a big threat to other WBT producers. Geca Tapes and Centran Tapes have already set up a joint venture plant in Jiangsu province to react on Tianrong's deed. In the future, industrial merger and acquisition stays a trend, however, since there is only a handful of major WBT producers,

thus the foundation for M&A becomes much more complex and less predictable of the consequence of M&A. The key promotional way is to attending in various industrial fairs and seminars. In order to stay in line active communication with other water blocking tape producers is also necessary.

6.2 Substitutes for WBT

Generally speaking, there is one other product that serves the same purpose of WBT in cables – petroleum jelly. It functions keeping water away from penetration into the cable core. However, it is gradually substituted by WBT.

Table 10: Comparisons between WBT and petroleum jelly

	Advantages	Disadvantages
Petroleum jelly	<ul style="list-style-type: none"> • Cost-saving solution 	<ul style="list-style-type: none"> • Sensitive to frequent temperature changes • Unequalized allocation caused by bubbles inside petroleum jelly •
Water blocking tape	<ul style="list-style-type: none"> • Better cushioning/bedding properties. • High elasticity and low compression set • Do not fray at the edges 	<ul style="list-style-type: none"> • Higher price than petroleum jelly

Source: Data were adapted from T.T.O internal document, 2005.

6.3 Threats of new entrants

WBT market is growing up along with cable industry in China as well as the general global situation. However, the quantity of cable manufacturers around the world is limited and 30 leading cable manufacturers supplying more than a half of the whole world's consumption of cables. Customer base is limited, which in turn, gives the buyer great power of bargaining and very little room for new entrants. However, if a cable manufacturer decides to build up its own factory of making WBT or contract it with another company, simply because he is not satisfied with the existing offers. It might be benefit from long run, but the cost may too high to be affordable (Capon. 2000, p. 87)

6.4 Bargaining power of suppliers

Major inputs for WBT are polyethylene (PET) non-woven, carbon black, super absorbent powder and adhesive glue. Furthermore, non-woven materials are being divided basically into three groups regarding their bonding technique. They are chemical bonded, also called adhesive, thermal and mechanical bonded (Lantor Cable Products, 2004, p. 4). TOP tapes are chemically bonded with polyethylene fiber. Based on Sinositec's thorough research of the potential suppliers of chemical bonded non-woven, there are only two qualified suppliers

within the whole China area. The two are also suppliers for Sinositec's competitors such as Shenyang Tianrong and Sichuan Centran. They control the overwhelming market share of chemical bonded material, which stands for around US \$4 million market. For foreign invested WBT manufacturers, they usually combine Chinese non-woven suppliers with foreign ones, so that the suppliers could not exert a good deal of influence on the price. However, because of the great threat of new entrants (low set-up cost combined with middle technology requirement) they could not practice the oligarchy power on the buyers and the profit margin is kept around 5% consciously to keep potential new entrants away. Speaking about carbon black paste, because of its key function of electrical contact, WBT manufacturers usually make it by themselves. Ingredients for carbon black paste are normal chemical products. They are readily available and prices are transparent and comparable in most countries. Another important input for WBT is super absorbent power. Since there are plentiful suppliers of SAP powder, whose product could be easily substituted, supplier power is low.

6.5 Bargaining power of buyers

60 global leading wire and cable companies (wire and cable financial insight, 2006, p. 4) is estimated to have reached US\$47.7 billion in 2004 and US\$56.4 billion in 2005, counts for more than half of the market stake. And since most of them have subsidiaries worldwide, they can exercise power to negotiate over the price they pay for the product. By competing with another 6 large global WBT manufacturers, Sinositec, together with its mother company, is in a disadvantage place of pricing its products. Threat of substitutes is strong, a number of choices exist. Thus, the potential (industrial) buyers can ask around to find the best deal and most suitable choice. The bargaining power of buyer is high.

7. The WBT market

7.1 Buyers in EU market

The demand of WBT is derived from the demand of cables. Following the trends of increase/decrease of cable producing can display the shape of WBT sales. In order to find out how big is the target market. I have addressed several parameters (the Export Marketing Imperative, 2004, p. 106):

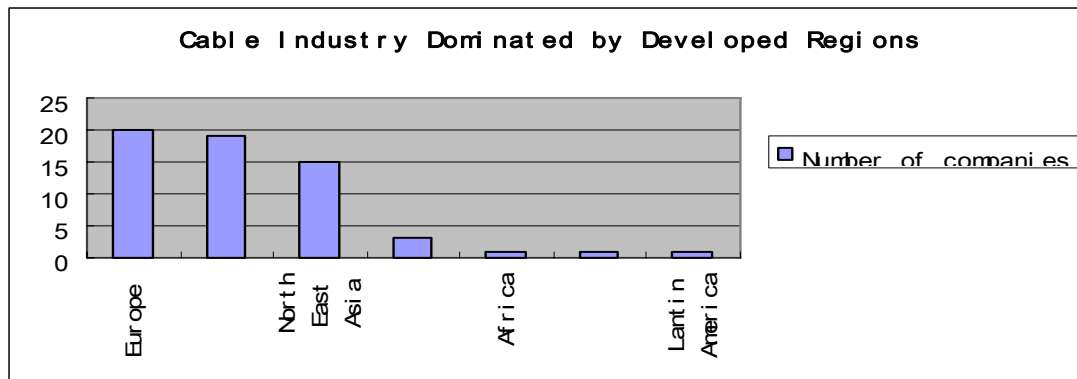
1. Consuming units – cable makers (world leading cable manufacturers within Top 60)
2. Growth rate
3. Current market size
4. Potential climate (recent developments)

Cable Industry Analyst has published on its April 2006 monthly magazine the following chart for the world top 60 wire and cable makers.

This chart gives an indication of the geographical distribution of the wire and cable industry

in terms of wire and cable revenues and wire and cable production. The leading 60 companies in the wire and cable industry show a wide geographical distribution, with 20 producers from both Western and Eastern Europe, 19 based in North America, and a further 15 from North East Asia (Japan, South Korea and Taiwan). There are also a few major players in the Middle East such as Saudi Cable, Riyadh Cables and Dubai Cables, with El Sewedy Group, with its operation in Egypt and Saudi Arabia (Jeddah Cables) outside the Top 60.

Figure15: Cable industry dominated by developed regions



Source: Cable industry analyst, 2006.

The industry structure has stayed fairly stable in the last 2 years. Nexans and Sumitomo Electric Industries still dominate their home regions of Western Europe and Japan/North East Asia respectively, with General Cable also strengthened its European market share through the acquisition of the French Silec Cable making operations from SAFRAN.

Top 60 is very important for WBT producers since the degree of concentration is fairly high:


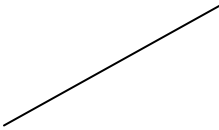
- The five largest wire and cable companies in the world account for 17.5% of revenues of the Top 60. The dominate players include Nexans, Sumitomo Electric Industries and Prysmian. Furukawa and Draka also have revenues of more than US \$2 billion. General Cable has also expended with the acquisition of Silec in France.
- The top 10 producers account for 54% of total wire and cable revenues of the Top 60 companies. Total combined revenues were around US \$25.5 billion in 2005.
- The top twenty companies accounted for almost 72% of the total revenues of the companies in the survey. Their combined revenues reached US \$ 34.4 billion.

In the same analysis, emerging markets such as Russia, China has boosted the sales of cables for infrastructure needs. CRU estimated that the growth of cable producing raises at a 5% annual rate globally, despite the copper price rockets.

7.1.1 Major players in Europe

Major European cable makers in the world Top 60 are listed below. The prominent development in recent years has been the continued increase in demand from China, which has meant that many of the leading players have had to make strategic decisions on whether to set up manufacturing plants in China (Pugel, etc. 2000, pp. 56-57).

Table 11: Dominate buyers in EU market

No	Company Name	Major in	Annual Consumption in Semi-conductive WBT	Annual Consumption in Non-conductive WBT	Original from
1	Waskoenig & Walter Kabelwerk GMBH	Power and Transmission cables	780,000 m2	680,000 m2	Germany
2	U.I.Lapp GMBH	Telecommunication cables	1,500,000 m2	1,500,000 m2	Germany
3	Twentsche Kabel Holding NV (TKH)	Telecommunication cables, energy cables	1,680,000 m2	500,000 m2	Germany
4	Tele-Fonika	Power and Transmission cables	1,450,000 m2	1,300,000 m2	Poland
5	SAFRAN	Telecommunication cables	900,000 m2	900,000 m2	France
6	Prysmian	Power and Transmission cables, energy cables	1,200,000 m2	700,000 m2	Italy
7	NKT Holdings A/S	Power and Transmission cables, energy cables	2,800,000 m2	800,000 m2	Denmark
8	Nexans	Power and Transmission cables	3,000,000 m2	2,000,000 m2	France
9	Nelson Quintas Group	Telecommunication cables	280,000 m2	800,000 m2	Spain
10	Leonische Drahtwerke AG(LEONI)	Wire products	750,000 m2	500,000 m2	Germany
11	La Triveneta Cavi(LTC)	Optical fiber cables	404,000 m2	400,000 m2	Italy
12	Kabelwerk Eupen AG	Optical fiber cables & telecommunication cables	1,260,800 m2	1,760,000 m2	Germany
13	IRCE SpA	Power and Transmission cables	650,000 m2	650,000 m2	Italy
14	General Cavi SpA	Power and Transmission cables	300,000 m2	535,000 m2	Italy
15	Ericsson Network Technologies AB	Telecommunication cables		580,000 m2	Sweden
16	Elektrisola Inc.	Copper magnet wires	1,000,000 m2	1,000,000 m2	Germany
17	Draka holding N.V	Optical fiber cables		4,500,000 m2	Netherland
18	Association Cooperative d'Ouvriers en Materiel Electrique (Acome)	Optical fiber cables		1,350,000 m2	France
19	Wilms Group	Power and Transmission cables	1,200,000 m2	1,000,000 m2	Germany

Source: Wire and Cable Industry Suppliers Association (WCISA), 2006

7.1.2 Recent corporate developments in the wire and cable business

➤ Western Europe

In Western Europe there were a few major changes in the structure of the industry.

- In Q4 2005, General Cable Corp took over the cable manufacturing business of Safran SA. The business had historically gone under the names of Silec and SAGEM. Silec, which is based in Montereau, France, employs 1,000 people and is a leader in the design, engineering and installation of high voltage underground cable. Silec is among the top three producers of energy and industrial cables in France. In 2004, Silec reported global sales of about €210 million. General Cable paid €75 million for the business, which includes about €65 million for the net working capital.
- In the enameled wire (magnet wire) market, Nexans agreed to merge its European manufacturing operations with those of Superior Essex. The joint venture was controlled 40% by Nexans and a majority 60% stake by Superior Essex JV. Nexans has also recently announced plans to set up a joint venture with Japanese company Viscas, which manufactures high voltage and submarine power cables. Furukawa Electric Co. Ltd and Fujikura Ltd own Viscas. The new entity will be 66% owned by Nexans and 34% by Viscas.
- A further key development was the merger of the communication cable business of Draka and Alcatel. Draka took a 50.1% majority stake and Alcatel 49.9% in the new joint venture company, which was set up in Q1 2004. The scope of this merged business covered optical fiber and copper telecom cables, as well as some of the residual business that Alcatel had retained such as its copper telecom and LAN data cable business. The new joint venture, which falls under Draka Comteq, gave the company a number of opportunities to merge and rationalize its operations. Draka has since announced plans to shut its operations in Finland, and expand operations in some emerging markets such as Eastern Europe.
- Leoni has also continued to expand its business globally, particularly in its automotive wire and harness operations. It has also sought to consolidate its operations in Western Europe. In Q3 2005 Leoni AG completed its acquisition of the leading second tier German cable manufacturer Kerpen. Leoni also took control of leading Swiss specialty cable manufacturer Studer. Originally the two companies had set up a joint venture, but in 2005, Leoni took control of Studer.
- In Q4 2003, Pirelli sold its enameled (magnet) wire business in Italy and China to a private equity fund, backed by the management of the subsidiary Invex. These businesses now trade as Invex and comprise two factories at Quattordio, Milano in Italy and a new facility on the Baoying Industrial Estate, Jiangsu in China. The plant in China concentrates on continuously transposed conductors (CTC) and has just begun production, whilst the two factories in Italy produce a full range of round and flat winding wires, CTC and also superconductor cable insulation. Invex comprises approximately two thirds of Pirelli's winding wire business. Invex itself would probably make it into the leading 100 global

makers.

- Subsequently, Goldman Sachs Group Inc's acquisition of Italian company Pirelli SpA's energy and telecom cable units, Pirelli Cavi e Sistemi Energia and Pirelli Cavi e Sistemi Telecom was completed in Q3 2005. Since then there has not been any major restructuring within the group globally.
- Prysmian plans to stop copper rod production at its plant in Prescott, Merseyside, near Liverpool in the UK. The facility has been operating at 90,000tpy, much less than production capacity of 130,000tpy. The Italy-based company now intends to focus on cable production. The decision to shutdown the Prescott facility was in part due to high operating costs, which have been exacerbated by record copper prices and rising energy costs.
- Wilms Group has also been expanding its operations in Europe. It acquired the ABB Energiekabel business based in Mannheim, Germany in Q1 2004. The new business called Sudkabel GmbH is one of the leading producers of high voltage power cables in Europe. Private investors also have a minority stake in the business. Wilms has also expanded outside Germany, taking over leading Austrian cable maker Pengg Breitenfeld Kabel AG from leading Danish cable producer NKT Holdings A/S. Central and Eastern Europe

In the last decade business conditions for the leading Central and Eastern European cable makers has been tough, as they faced declining demand for their products, and stiff competition from the leading Western European and even Turkish cable producers, in some cases. There are really two leading players, Tele-Fonika Kabel, which dominates the Polish market and Kablo Elektro, which has a significant share of the Czech cable market. Otherwise there has been a great deal of investment by Western European, Japanese and US companies in Eastern Europe. In particular there has been significant investment in automotive wire and OEM wiring harness plants.

- Prysmian Cables & System (the former Pirelli Cables) strengthened its presence in Poland by acquiring a stake in EKSA SP.ZO.O. The Polish company is the market leader in the sector of the distribution of energy and telecoms cables and systems. Prysmian acquired a 20% stake in EKSA with the possibility in the future to further enlarge its shareholding.
- Leoni Autokabel Slovakia has recently opened a new cable harnesses plant in Ilava in Slovakia. The plant, which is part of an investment project by the Leoni Autokabel mother company worth US \$30 million, will manufacture products for the BMW car company. It will employ more than 1,000 people. Leoni Wiring System UA GmbH also set up a factory in the Ukraine in Stryj. Leoni invested €40 million in the engine and transmission cable harnesses. Leoni also has plants in Poland, Hungary and Romania.
- Tele-Fonika Kabel SA has continued to dominate and consolidate its position in the Polish cable market. It has also looked to extend its distribution network eastwards. In Q1 2006 it set up a subsidiary, UAB Tele-Fonika Baltic, in Kaunas, western Lithuania. The new company will be responsible for the sales and distribution of Tele-Fonika Kabel products in the Baltic States and Russia.

7.2 Sales in EU market

As introduced in previous chapter, Sinositec works on 100% export basis to T.T.O. Therefore, the distribution of Sinositec's products integrates with T.T.O distribution channels. And T.T.O's sales department is responsible for the marketing and sales activity of both companies. Table 12 displays T.T.O's current customers in EU market and their purchasing information in 2006.

Table 12: T.T.O's 10 major buyers of WBT tapes

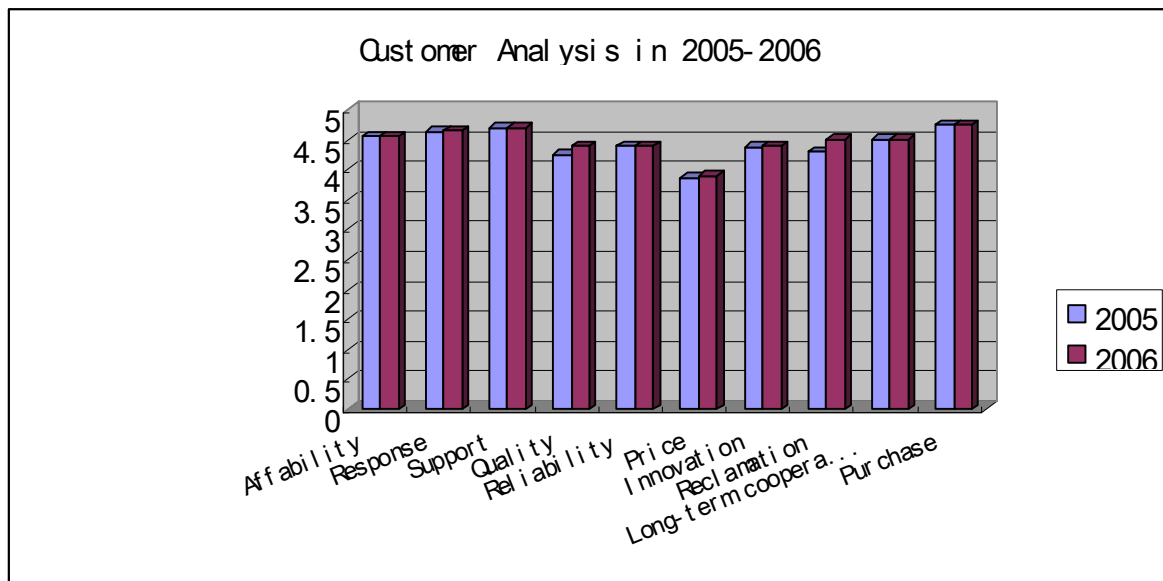
Company name	Produced cable type	Annual usage of non-cond. WBT	Annual usage of semi-cond. WBT	Purchased types of WBT
Sudkabel GmbH (Wilms Group)	Power and transmission cables	420,480 m ²	598,000m ²	TTO 210 TTO 215 TTO C215 TTO 1100
NKT Holding A/S	Power cables	208,700 m ²	310,000 m ²	TTO 207 TTO 206 TTO C 2155 TTO CE110
GOTEX S.A.	Tapes	168,300 m ²	120,000 m ²	TTO 110 TTO C203
OFS (a Furukawa company)	Optical fiber cables	237,800 m ²		TTO 105 TTO 108
Reka Kaapeli	Energy cables	27,000 m ²	108,000 m ²	TTO C 2155 TTO 206
TELNET	Energy cables	96,000 m ²	4,230 m ²	TTO C 210 TTO 210
ECN	Telecommunication cables	16,000 m ²		TTO 207
ICS	Power cables		16,000 m ²	TTO C 206
OFC	Special cables	3,000 m ²	13,000 m ²	TTO C 110 TTO 110
Kabelovna	Energy cables	8,000 m ²	8,000 m ²	TTO C 213 TTO 106

Source: T.T.O internal document, 2007.

Table 12 shows T.T.O's 10 major buyers in EU market in 2006. T.T.O plans to get another five new buyers on yearly basis or 15% growth rate of sales totally. So far, by T.T.O's own estimation it holds around 6% stake of the global market, which stands around EUR□75 billion. Because of the fierce competition, T.T.O has always emphasized that first consolidating the cooperation relationship with existing customers by delivery high-level customer satisfaction; then, thrives to get new customers. T.T.O carries out annual customer analysis based on its customer survey through questionnaires (see Appendix 9).

In fact, T.T.O adjusts its long-term strategies and short-term focuses according to the analysis result to improve its service. Likewise, customer analysis is an alert to T.T.O of those fields which it is weak; and urges it to achieve better performance. Relying on this, T.T.O's customer loyalty is fairly high to allow it to search for new customers.

Figure 16: Customer Analysis in 2005-2006



Source: T.T.O internal documents, 2007.

In order to meet the increase of sales revenue, material purchasing increases too (Kotler. 2004) According to the plan, there will be 56% increase in strategic purchasing of materials in the following 5 years. The criterion for choosing potential supplier is quality-driven and technology-conscious. T.T.O has a complete set of material measures to distinguish qualified and disqualified ones.

Table 13: Goal of business operation with buyers

Reclamation/DDV		0,22	0,12	0,05	42
Goals of business operation with buyers					
Strategic direction: Interested and loyal buyers					
Strategic goals	Indicators	2005	2006	2007	INDEX 07/06
Constantly get new buyers	No. of new buyers	0	0	10	0
	Proportion of revenues	0	0	5%	0
Buyer's loyalty to the firm	Proportion of the 15 key buyers	89,52%	88%	85%	97
	Customer satisfaction	89,52%	90%	91,50%	102
Profitability	Profitability of the 10 key buyers	0	1,02	1,14	112

T.T.O has also been aware of the pressure and danger of competition. Thus it has implemented for many years the annual customer satisfaction survey, which systematically displays satisfaction degrees of each single field and the total satisfaction degree of every customer (See, appendix 9).

The key buyers evaluation is most important, because they consist the majority sales. In 2006 the customer satisfaction survey has also been carried on, questions were classified in 5 divisions:

- The customer's general opinion
- The customer's opinion about the product
- The customer's opinion regarding long-term cooperation
- Suggestions and advices from customers
- Provocative question to raise discussion: "Why do you buy our products?"

In the following 5 years, T.T.O will mainly focus on potential buyers listed below. T.T.O has come to contact with these firms and samples are also been sent out. But it usually takes 2-3 years to pass through the whole selection process from price enquiry to sample checking, from random substitute products to regular delivery.

Table 14: T.T.O's potential buyers

Company name	Produced cable type	Annual usage of non-cond. WBT	Annual usage of semi-cond. WBT	Purchased types of WBT	Total amount of sent out samples
U.I.Lapp GMBH	Telecommunication cables	780,000 m ²	680,000 m ²	TTO E110 TTO 215 TTO C215 TTO C2075	149,000 m ²
Nexans	Power and transmission cables, energy cables	3,000,00 m ²	2,000,000 m ²	TTO 207 TTO 206 TTO C 2155 TTO CE110	149,000 m ²
Draka holding N.V	Optical fiber cables	/	4,500,000 m ²	TTO C210 TTO C203	68,000 m ²
Ducab Furukawa company)	Power and transmission cables	350,000 m ²	350,000 m ²	TTO 210 TTO C210 TTO CE110 TTO C150	35,000 m ²

Source: T.T.O internal documents, 2007

8. Pros and Cons of setting up the daughter company in China

Obviously, investing in China has its bright and dark side.

8.1 Advantages of setting up the daughter company in China

The transfer of technical and management knowledge from T.T.O creates a shortcut for Sinositec's operation. It provides a distinct framework of how to run the company in a right manner. As the example of successful WBT producer, T.T.O has collected sufficient valuable experience during the last 30 years. All the useful technical data have been documented as well as the management process, for example supplier data base, customer data base, internal management flow chart, internal management regulation, and so forth. Especially, when it comes to technical information, for instance the inflow and outflow of product quality checking, material takeover condition, material technical enter condition, are arranged in a way of how to do & not to do. Technical process is explained in details and in an explicit way that Sinositec can take them over and use them readily.

Since the production equipments both in the mother company and the daughter company are identically the same. T.T.O practices long-distance monitor over Sinositec's daily production by several means. First, through knowledge control. Because from the initial equipment utility training to equipment maintenance, from the production parameter setup to transforming it into equipment system language, T.T.O's technicians participate in all above mentioned activities. So from this point of view, T.T.O's technicians are the mentors of Sinositec's technicians. They know every step and steps that follow in Sinositec's production process. Second, visual surveillance (camera) installation in Sinositec's production hall enables T.T.O. get up-to-date production information. If anything goes wrong, it can contact the Sinositec's production manager immediately. Third, company meeting between T.T.O and Sinositec is implemented on fourteen-day basis that Sinositec would give report regard material purchase area, production running information, final products parameter statements, and finance area and so on. The report covers Sinositec Investing in China also gives the mother company a chance to examine the quality of non-woven material purchased in China before shipping. Despite prior technical checking has already existed before the establishment of Sinositec, the quality of non-woven varies from time to time. Reclamation cost caused by ill quality is an enormous expenditure and time-consuming matter. This also seriously affects the cooperation relationship between buyer and seller. Thus quality examination carried on by Sinositec's local employees at the supplier's premise before shipment effectively decreases the possibility of goods reclamation caused by ill quality.

Sinositec's summary of the last fourteen days' operation and offers plan for next fourteen days. After that T.T.O. can give helpful correction measures or point out direction to Sinositec for problem shooting. The regular company meeting provides a communication platform to ensure the free flow of information.

Investing in China also gives the mother company a chance to examine the quality of non-woven material purchased in China before shipping. Despite prior technical checking has already existed before the establishment of Sinositec, the quality of non-woven varies from time to time. Reclamation cost caused by ill quality is an enormous expenditure and time-

consuming matter. This also seriously affects the cooperation relationship between buyer and seller. Thus quality examination carried on by Sinositec's local employees at the supplier's premise before shipment effectively decreases the possibility of goods reclamation caused by ill quality.

Based on Heckscher-Ohlin (H-O) theory of trade patterns, Ohlin put it in his own words,

“Commodities requiring for their production much of [abundant factors of production] and little of [scarce factors] are exported in exchange for goods that call for factors in the opposite proportions. Thus indirectly, factors in abundant supply are exported and factors in scanty supply are imported.”

China with its over one-fifth of world's population, is a labor-abundant country. It should export labor-intensive products like textile. Non-woven material industry is a sub-division of textile industry, which offers the company a sourcing pool for raw materials. Furthermore, when other factors stay the same, it is cheaper to produce in China than in Slovenia one unit of the final product just because of the cheaper labor costs. As the comparison of average textile industry salary between Slovenia and China clearly display that 5:1. So if T.T.O decides to invest in China, it immediately gains this advantage. In addition, since all the production workers will be trained at their work place once have been chosen, the most important way of gaining working skills is through practice. Therefore, if the worker has finished high school or professional school, it would be adequate, which implies that there are more than 5000 candidates available (new graduates from high/professional schools in QD area). The supply of work force is rigid which enables Sinositec enough space for personnel selection.

As mentioned in chapter 3, that the continued expansion in the Chinese cable market has driven growth globally, which reflects that China has become a huge cable consumption country. It is where the buyers are. Despite at this moment T.T.O group has no plan to sell in China, but as time goes on, it believes this will be a matter under discussion. Setting up a daughter company in China, means reducing transportation costs and time, avoiding actual or threatened barriers to importing into it. In addition, being in the country, it's faster to find out and track on the changing requirements of potential customers, enriching the entire production program. Sinositec could also provide better information of Chinese market and its needs to T.T.O. Together; they can better adapt advertising and other aspects of promotion efforts to their customers. Moreover, Sinositec can enhance the image of the multinational firm as a committed and reliable buyer, and it can hold better communication with Chinese raw material suppliers.

Sinositec together with T.T.O represent output of more than 20 million square meters final products, which enable them to exercise economy of scale at material purchasing. They have signed mutual agreement with their regular suppliers regard delivery terms, payment terms and volume discount. Because of the large volume of order, T.T.O and Sinositec have priority to get the material from their suppliers after placing purchase order. Moreover, they enjoy

longer period for payment. In addition, depends on the yearly purchasing volume with each single supplier, they can enjoy different percentage of payment discount.

Being the pioneer of Slovene manufacturers in China, Sinositec gains many valuable experience of conducting business in China. As a matter of fact, through its contact with the local government authorities, familiarizing itself with Chinese laws and regulations, Sinositec actually could offer its own example for the followers that wish to invest in China, thus, providing consultancy service to FORI BS's other companies or perhaps to outsiders.

Preferential tax treatment: Despite corporate income rates for domestic and foreign companies are unified at 25 percent from this year (2008), compared to 33 percent for domestic firms and 15 percent for foreign companies before change. Enterprises registered before 2008 are given five-year grace period of favorable tax rates. So the daughter company (Sinositec) still enjoys tax waivers and incentives (Jiang W. 2008)

8.2 Disadvantages of setting up the daughter company in China

On the downside, building a new operation from scratch is time consuming and require extensive, and in this case, frustrating engagement, with the local planning authorities, for instance branch of Ministry of Foreign Trade and Economic Cooperation, branch of State of Administrative of Foreign Exchange, local China Custom House, regional Industrial and Commercial Bureau, regional Quality Examination Bureau, regional Social and Security Bureau, etc. Indeed, it took Sinositec months to familiarize itself with many new laws and regulations, ranging from employment to taxation law and from environment to import and export regulations. Even though Sinositec is still learning and adapting itself with the new environment, it encounters major national hurdles: inadequate communication about salary structure, overtime working policy, bonuses and benefit treatment caused misunderstanding of it and brought dissatisfaction of middle management team, which in return discourage their job performance. Lack of initial knowledge about processing trade manual has led inaccurate data and caused fair enough times of revision regard input-output transformation formula and waste calculation, which consequently increase the difficulty of implementation and monitoring of manual usage.

Moreover, different mentalities and philosophies between Slovene corporate culture and its Chinese employees, somehow, found it difficult to bridge the gap. For example, business operating in China requires extensive personal relationship building-up. However, Sinositec encourages its employees to keep the personal contact minimized, which means during the 8 working hours. This leaves its employees little room for cultivating customer relationship, thus, win the contract or cooperation in the end.

In addition, the business is exposed to foreign exchange risk as well. Foreign exchange exposure can be looked at under three separate ways: namely, transaction exposure, economic exposure and translation exposure (Mrak, 2005/2006). Transaction exposure is concerned

with how changes in exchange rate affect the value, in home currency terms-euro, of anticipated cash flows denominated in foreign currency-renminbi relating to the transaction already entered into. This is not hard to understand that when T.T.O group, T.T.O and Sinositec have intra-firm trade, commissions or provisions paid in renminbi occur, whose amount changes corresponding to changes in exchange rates. Slovenia, being a member of EU trade bloc, is affected by the political and economic dialogue between EU and China (Financial Times, 2007). One thing among many is the appreciation of renminbi. This will directly increase T.T.O's expenditure on goods purchased from Sinositec. Translation exposure arises as a result of the process of consolidation of foreign currency items into group financial statements denominated in the currency of the parent company. The fluctuation of foreign exchange rates affects the results of consolidated balance sheets, which in turn will affect T.T.O's financial statement.

Though restructuring has been required through the daily operating works within governmental administrative offices, rigid administrative system and pile of paperwork lead a low efficiency of communication between government and companies. In addition, China is rated at 29th among 30 countries and has been classified as countries most likely to bribe (Bribe Payers Index 2006, 2007).

9. Conclusion

In today's world, advanced technologies and globalization have got large-scale companies more or less involved in international business. In its path toward internationalization, T.T.O chose to build up its wholly owned daughter company – Sinositec in China, with which it takes the full control and full responsibilities. As shown in this thesis, during the past 30 years, Chinese economy is sound and sustainable. Chinese government is open to foreign investment by providing foreign investors preferential economic policies. This creates for T.T.O a very good macro investment environment. By considering the location of Sinositec has to satisfy two criteria; firstly, is a costal city (facilitate export), secondly, stands as close to suppliers as possible. City Qingdao outperforms other cities in satisfying these criteria. In addition, Qingdao economic and technological development zone is ranked as no.4 in services and infrastructure constructions among 54 nationalized development zones (QDDZ news letter, 2008). Certainly, it is eligible to preferential economic policies. By saving taxation payment and labor costs, it directly increases T.T.O's profitability for 10% (Sinositec feasibility plan, 2006), which in turn, making T.T.O group's products more price competitive in EU market.

The cost of transplanting production process and techniques to Sinositec may be high in short-term, but the influence is long-lasting. First, it standardizes the production process and control system. T.T.O could supervise Sinositec's operation over long distance. Second, during the integrated process, it transferred the corporate culture from T.T.O to Sinositec. This facilitates Sinositec daily operation and further exploration in Chinese market. Since the sea transportation fee between China and Slovenia would occur either in carrying raw materials or final products. Transportation fee could be neglected here. Moreover, China has joined international convention of 0% taxation of exported commodities from domestic VAT tax

(principle of destination). In this diploma thesis I try to prove that the cause-effect relationship between product tax saving, quality maintaining, TOP Tapes™ would be more competitive in EU market. By obtaining the export practice, T.T.O can calculate his stock level on just in time model, thus, less capital is required in inventory and cash turn-over would be faster.

However, since this is the first FDI project T.T.O cooperated. No previous experience can be learnt. Despite many things have been taken into considerations, many unforeseen factors can affect on the shape of this investment. Whether it pays off to build a factory in China is still open to question and hopefully that in the near future we will find the answer.

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Appendix 1: Povzetek

1. Uvod

Širitev poslovnih aktivnosti na nove trge pogosto nudi podjetjem obetavnejše dolgoročne alternative za dinamično rast, a zahteva dobro poznavanje okolja v katerega podjetje vstopa. Tako lahko zmanjša negativne vplive zunanjega okolja in omogoča izkoriščanje priložnosti.

Cilj diplomske naloge je bil analizirati posebnosti uvozno-izvoznega poslovanja med Kitajsko in Slovenijo. Na primeru TOP tapes izdelkov, proizvajalca Tekstilne tovarne Okroglice (T.T.O. d.d.) na trge Evropske Unije. Skozi teorijo in na osnovi lastnih spoznanj sem analizirala perspektivne trge EU za to vrsto izdelkov ter ovrednotila posebnosti poslovanja s Kitajsko, načine vstopnih strategij in posebej obravnavala izbrani primer T.T.O..

Tekstilna Tovarna Okroglica d.d je slovensko podjetje, ki se nahaja v Volčji Dragi blizu italijanske meje. Omenjeno podjetje proizvaja predvsem izdelke za avtomobilsko industrijo (elementi za avtomobilске sedeže so v letu 2005 predstavljali 72% proizvodnega programa) ter kabelsko industrijo (zaščitni trakovi za kable pa so v letu 2005 predstavljali 25% proizvodnega programa). T.T.O je imel 14 odstotni tržni delež evropske avtomobilске industrije in 6 odstotni delež svetovne kabelске industrije v letu 2006. Poslovni sistem FORI je v letu 2005 kupil večinski delež T.T.O-ja in s tem prevzel vodenje podjetja. Od takrat naprej je strateška naložba T.T.O-ja tesno povezana z ustvarjanjem sinergij med krovnim podjetjem FORI in T.T.O.

Podjetje T.T.O je v letu 2006 sprejelo odločitev, da investira na Kitajskem. Formiralo je hčerinsko družbo, ki je v 100% lasti Qingdao Sinositec Engineering Textile Co. Ltd v mestu Qingdao, v pokrajini Shandong in sicer kot sestavni del poslovnega sistema FORI. Vlaganje podjetja T.T.O na Kitajskem je bila pomembna poslovna odločitev za vsa ostala dejanja, ki so povezana s kitajskim trgov, kajti poslovni portfolio podjetja FORI sestavljajo tako proizvodnja bele tehnike, proizvodnja zaščitnih trakov za kable, prodaja oblačil, jaht, idr. Večina partnerjev podjetja je že posredno ali neposredno poslovala s Kitajsko. Z vzpostavitvijo hčerinskega podjetja na Kitajskem si je družba povečala konkurenčno prednost, obenem pa je tudi postala pomembnejši in zanesljivejši partner zaradi zagotavljanja temeljite vhodne kontrole blaga in surovin, ki jih uvaža s Kitajske.

2. Analiza kitajskega poslovnega okolja

Od leta 1978, ko je Kitajska začela z gospodarskimi reformami, je dosegala v povprečju 9.6 odstotno realno gospodarsko rast letno, in sicer več kot dvajset let (Vir: Xinhuanet, 2006). Rast BDP že nekaj let spodbuja izjemno visoka rast domačih naložb (12 odstotkov v letu 2007) in izvoza (19 odstotkov v letu 2007; Vir: izvoznookno, 2007). Zunanjetrgovinski sektor danes ustvarja že 38 odstotkov BDP-ja, pri čemer je Evropska Unija že od leta 2004 največja

poslovna partnerica Kitajske.

Ena pomembnejših dejstev gospodarske reforme je davčna ugodnost za tuje investitorje, ki v večini primerov plačujejo 15 odstotni davek, medtem ko domača podjetja na Kitajskem plačujejo davek od dobička po 33 odstotni stopnji (Vir: China daily, 2008). Kljub temu, da je bil v marcu 2007 sprejet nov zakon o obdavčitvi podjetij, v katerem bodo po dvajsetih letih tuja in domača podjetja izenačena in bodo plačevala 25 odstoten davek na dobiček, bo prehodno obdobje za uveljavitev zakona pet let. V tem času bodo tuja podjetja še vedno uživala privilegij nižje stopnje obdavčitve.

Oblike in organizacijo družb na Kitajskem določa Zakon o družbah (China Company Law), tuje naložbe ureja Zakon o podjetjih v popolni tuji lasti, skupne lastniške naložbe pa ureja Zakon o skupnih lastniških naložbah.

Osnovna zakonodaja na področju tujih neposrednih investicij, ki je pomembna za vsako ustanavljanje in vodenje podjetja na Kitajskem, je:

- ☐ Investment in Wholly Foreign-Owned Enterprises Law (sprejet 1986, 5 krat revidiran, nazadnje aprila 2001),
- ☐ Law on Chinese-Foreign Equity Joint Ventures (1979),
- ☐ Contract Law (01.10.1999),
- ☐ Securities Law (01.07.1999),
- ☐ Tendering Law (09.04.1999).

V poslovnem okolju Kitajske je nampomembnejši del razumevanja navad in običajev – kitajska kultura in kultura poslovnih običajev. Trompenars je v svojem delu (2001) razčlenil dve skupini kultur. Kitajska kultura je ena izmed visokokontekstnih in polikronih kultur. To pomeni tudi, da je razlika/razdalja med osebnim in poslovnim življenju zelo majhna; človeku v tem okolju je težko pridobiti sposobnost za razumevanje zanke oz. t.i.pomena med vrsticami. Za doseganje uspehov v takšni kulturi namreč potrebujete bogate osebne vezi (guanxi). Razumevanje guanxi-ja je ključ za uspešno poslovanje na Kitajskem.

3. Predstavitev podjetij T.T.O in Sinositec

Podjetje FORI posluje tako s Kitajsko kot z ostalimi azijskimi državami. Glede na ekspanziven razvoj kabelske industrije in povečano povpraševanje po zaščitnih trakovih za kable, je odločitev za širjenje poslovanja podjetja T.T.O na Kitajsko zagotovo dobra poteza. T.T.O je prenesel tehnologijo in opremo v podjetje Sinositec, ki že sledi proizvodnim naročilom podjetja T.T.O.

4. Kratka predstavitev izdelka - zaščitnega traka TOP tapes

Kot plod uspešnega timskega sodelovanja med proizvajalcem kablov, kemično industrijo ter proizvajalcem netkanih materialov, se je leta 1980 na trgu pojavil nov izdelek TOP tapes.

Danes je ta izdelek postal eden najpogostejše uporabljenih zaščitnih materialov v energetskih in telekomunikacijskih kabljih. Izdelek TOP tapes je izdelan iz poliestrskega netkanega materiala in super-glušila, ki sta s postopkom kemijsko toplotnih obdelav medsebojno povezana v kompakten tekstilni material. Kot osnovna surovina je izbran poliakrilatni polimer. Zanj značilni lastnosti sta biološko nerazgradljivo vlakno in visoka temperaturna odpornost. Zaradi svoje visoke temperaturne odpornosti material ustreza posameznim proizvodnim fazam tako pri izdelavi kablov kot tudi v njihovi nadaljnji namestitvi. Vsi sestavni deli izdelka so 100 odstotno sintetični materiali. Zaradi tega so dolgo vzdržljivi in ne podležejo delovanju mikroorganizmov, ki so prisotni v vodah in podzemnih tokovih. Lastnosti, ki jih upoštevamo pri izdelku, so: debelina, masa, elastičnost, dolgotrajna temperaturna stabilnost, kratkotrajna temperaturna stabilnost, moč vpojnosti, višina napihovanja, prečni in površinski upor. Pri tem je najpomembnejše omogočanje nemotene uporabe trakov v pogojih proizvodnega procesa vgradnje trakov v sestavo kabla, kot tudi omogočanje njegovega delovanja pri nadaljnji eksploataciji v eventualnih ekstremnih pogojih. TOP tapes izdelek ima v svoji sestavi tudi glušilni prah. Ta se ob stiku z vodo pretvori v gel. Gel pa pri tem zasede tudi do 10-krat večjo prostornino. Tako se v relativno kratkem času zapolnijo prosti prostori v konstrukciji kabla. Z napihnjenim delom kabla je tudi lokalizacija napake lažja, kasnejši stroški popravila kabla pa nižji. Slika 1 prikazuje izgled TOP tapes izdelka pred in po stiku z vodo.

Slika 1: Prikaz TOP tapes izdelka pred in po stiku z vodo



Vir: T.T.O interni dokument, 2007.

Konkurenčna analiza na evropskih trgih za izdelek TOP tapes

Svetovni trg sestavljajo posamezni nacionalni trgi, ki se med seboj razlikujejo po stopnji razvitosti, velikosti in dinamiki razvoja. Uspešno vključevanje podjetja na tuje trge zahteva dobro poznavanje okolja, v katerega vstopa, saj je potrebno za vsako dejavnost razviti nov strateški načrt. To pa se ne more izvajati brez kvalitetne analize konkurence po posameznih trgih. Kritično vlogo v konkurenčni analizi ima predvsem razumevanje trženjskega

upravljanja z vidika posameznega trga. Na evropskih trgih se T.T.O srečuje ne le z evropsko konkurenco, temveč tudi s konkurenco iz azijskih držav. Vsa konkurenčna podjetja tržijo iste izdelke, npr. neprevodne trake, polprevodne trake ali marinske trake ter zaščitne vrvice, med seboj pa se razlikujejo predvsem po plačilnih pogojih, dostavnih pogojih, storitvah itd. Nadomestnih produktov za zaščitni trak za vgradnjo v kabel je zelo malo, tehnično soroden pa je samo eden. To je t.i. petroleum jelly. Vendar se je z razvojem zmanjšala uporaba le-tega zaradi nestabilnosti delovanja pri spremembi temperature.

V odnosu do dobaviteljev osnovnih surovin za proizvodnjo zaščitnih trakov ima proizvajalec precej večjo pogajalsko moč pred dobaviteljem predvsem zato, ker je proizvajalec v svetovnem merilu relativno malo. Dobavitelja pa lahko proizvajalec zamenja hitro, ker je ponudba surovin precejšnja. Trg zaščitnega traku predstavlja 60 glavnih kupcev, ki so v letu 2005 kupili za 46,7 milijarde USD izdelkov.

5. Izvedba uvozno – izvoznega posla na Kitajskem

Na podlagi ocene oz. vedenja o kitajski kulturi, potencialnih partnerjih, možnostih nakupa podjetja, itd. se je podjetje odločilo za ustanovitev lastnega hčerinskega podjetja. Izdelki se proizvajajo v podjetju Sinositec, prodaja pa se izvaja v Evropi oz. na tistih trgih, kjer ima T.T.O kupce. Pristop v izvedbi posla je uvoz surovin ter ponoven izvoz končnih izdelkov iz Slovenije. Izveba mednarodnega posla ima naslednji tok: pridobivanje posebnega statusa za uvoz, izvoz pri lokalni carinski izpostavi, uvoz, obremenitev z davčno in carinsko tarifno stopnjo, izvoz končnih izdelkov s povračilom (carinske) tarife. Dokumentacija, ki jo zahteva kitajski carinski urad za uvozni carinski postopek in izvozni carinski postopek sta si precej podobni in vključujeta uvozno carinsko deklaracijo, račun, pakirno listo, ladijski tovorni list, oz. letalski tovorni list (Vir: China Customs, 2007)

6. Trženjska strategija za pridobivanje novih kupcev

T.T.O mora za pridobivanje novih kupcev izvajati predvsem osebno prodajo in še bolj učinkovito vzpostavljati nove stike s potencialnimi kupci preko že obstoječih. Na primer, T.T.O je pridobil kontakt Prysmian Francije preko Prysmian Italija. Po potrditvi ustreznosti izdelka po tehničnem preizkusu v Prysmian Italija, je T.T.O zelo hitro dobil naročilo tudi s strani Prysmian Francije. Trenutno ima T.T.O 10 pomembnih kupcev po Evropi ter načrtuje pridobiti pet novih kupcev na letni ravni oz. 15% rast prodaje na leto. Za povečanje dobička oz. prodaje na omenjenih trgih je bilo podjetje T.T.O prisiljeno iskati nove kupce ter pri tem porabiti precej časa in drugih virov. Po dosedanjih izkušnjah je za osvojitve enega novega kupca potrebno povprečno dva do tri leta časa in obilo energije pri razvoju t.i. trženja na podlagi odnosov. Zato se podjetje zaveda, da je obdržati obstoječe kupce enako pomembno kot pridobivati nove. Vsako leto se zato izvaja anketa o preverjanju zadovoljstva kupcev, s čimer pri podjetju ugotavljajo stopnjo njihovega zadovoljstva ter odkrivajo vrzeli, ki jih je potrebno odpraviti.

7. Zaključek

Ustanovitev hčerinskega podjetja na Kitajskem ima svoje dobre in slabe strani. Sinositec je pridobil celotno znanje o proizvodnji neposredno od podjetja T.T.O. Poleg tega T.T.O. tudi pošilja svoje tehnike v Sinositec za usposabljanje novih delavcev. Te dragocene izkušnje bistveno krajšajo čas učenja. Kljub temu, da proizvodnja poteka na Kitajskem, T.T.O. lahko učinkovito nadzoruje kvaliteto izdelkov in doseganje proizvodnih zahtev. Prav tako izvajanje anket o zadovoljstvu kupcev podjetju T.T.O. omogoča usmeritev k izboljšanju. Nenazadnje je zelo pomembna tudi bližina treh od štirih glavnih dobaviteljev strateških surovin, ki prihajajo iz Kitajske in Japonske. Vhodna kontrola se lahko izvaja pravočasno in povratno informacijo lahko v najkrajšem času posreduje dobaviteljem.

Slabe strani za investicijo na Kitajskem so predvsem dolgotrajna in obsežna vlaganja (finančna sredstva, energija, delo), tudi razdalje, tako psihična kot fizična razdalja, predvsem pa popolna drugačnost kitajske kulture od slovenske. To je tudi največji izziv vodenja in izvajanja poslova s Kitajsko in na Kitajskem. Vsekakor je zaželena visoka občutljivost celotnega managementa in prilagodljivost kulturi. Vendar pridobivanje znanja in razumevanja določene kulture zahtevata čas in nenehno učenje, predvsem pa vztrajnost.

Ustanovitev lastnega hčerinskega podjetja na Kitajskem je bila za T.T.O. neizogibna, vendar tudi pravilna odločitev. Pogosta selitev proizvodnje svetovnih ponudnikov predelovalne industrije na Kitajsko kaže na to, da je to svetovni trg prihodnosti za nabavo in prodajo predelovalne industrije.

Appendix 2: Processing Trade Manual

Part 1: Processing Trade Manual Profile

(No. of brochure: X0123456789)

Custom House in charge: Custom Name

No. of brochure:	X0123456789	Im.&Ex. Port No.1	QD Development Zone	Im.&Ex. Port No. 2	QD Main Port
Im.&Ex. Port 3	QD Airport	Im.&Ex. Port No. 4	QD Post office	Im.&Ex. Port No.5	QD Free Trade Zone
Company name	QD sinositec with the custom registration no.		Goods arrived at:	QD sinositec	
Invested company	Tekstilna Tovarna Okroglica d.d.		Goods arrived at region:	QD Develop. Zone	
Responsible person		Trading Method	Processing and re-export	Taxation method:	Processing trade
Business term		Floatation rate %	0%	Origin-Destination	
Way of investment		Way of recommendation		Way of tax exemption	
Agreement No.		Licence No.		Domestic Sales %	0%
Permission No.	According to local MOFTEC opinion	Import Contract No.	SIN 07/01	Export Contract No.	SIN 07/02
Copies of Contracts		Important Mark	Important/Unimportant contract	Processing type	
Total Value of Import		Currency	EUR	Supervising Fee	0.00
Total Value of Export		Currency	U.S. Dollar	Supervising Fee	Exempted from payment

Date of adjustment		Valid till	Usually 1 year	Date of Approval	
Proved by		Data input by		Input Date	
Amount of Raw Material Items		Types of Equipment Items		Types of Final Products	
Remark					

¹ Contract SIN07/01 is the purchasing contract of raw materials from abroad.

² Contract SIN07/02 is the sales contract of the final products to abroad.

However, these two contracts are vital for opening one new brochure. In order to avoid defraud on import, the custom officer requires representing both of the original contracts. However, it's not necessary that the sales contract covers all the usage of purchasing amount of raw materials. Understandably, one purchasing contract (the opened amount of imported raw materials) can have several sales contracts match it. Not necessary one to one option.

Part 2: Corresponding Relationship between Imported Raw Materials and Final Products

Brochure no.: X0123456789

No.	Name of Imported Raw Materials	Final Product 1		Final Product 2		Final Product 3	
		Input percentage	Waste percentage	Input percentage	Waste percentage	Input percentage	Waste percentage
1	Ingredient A(固体)无纺布	2,016	8%	2,016	10%	0,972	11%
2	Ingredient B (固体) 吸水粉	0,023	0%	0,030	0%		
3	Ingredient C(固体)胶带	0,00060	0%	0,00060	0%	0,00060	0%
4	Ingredient D(flue/gel) 碳黑			0,00960	55%	0,01820	55%
5	Ingredient E(纸筒)	0,00040	0%	0,00040	0%	0,00040	0%
6	Ingredient F(Liquid)PN8			0,0020	50%	0,0020	50%

Part 3: Final Products

Brochure no.:X0123456789

No.	HS code	Material Name/Type	Destination country	Quantity	Unit	Price/unit	Total Value	Taxation
1	5603xxxxxx		Slovenia	3000	M2	0,50		Exemption
2	5603xxxxxx		Slovenia	2400	M2	0,80		Exemption
3	5603xxxxxx		Slovenia	4500	M2	1,20		Exemption

Part 4: Imported Raw Materials

Brochure no.:X0123456789

No.	HS code	Material Name/Type	Destination	Quantity	Unit	Price/unit	Total Value	Taxation
1	5603xxxxxx		Slovenia		m	0,1054		Exemption
2	3902xxxxxx		Slovenia		Kg	3,05		Exemption
3	3919xxxxxx		Slovenia		Kg	19,00		Exemption
4	3206xxxxxx		Slovenia		Kg	2,35		Exemption
5	4822xxxxxx		Slovenia		Kg	0,40		Exemption
6	3506xxxxxx		Slovenia		Kg	1,53		Exemption

Appendix 3: Gou Xiao He Tong

FROM :

FAX NO. : 86500436

2007.08.20 13:45 P2

第一本号册的进材料合同

CONTRACT FOR PROCESSING

Contract No.: SIN07-03

PART A:



Tekstilna Tovarna Okroglica d.d.
Dombrava 1, 5293 Voleja Draga
Slovenija, Europe

PART B:

Date: 2007-06-20



Qingdao SINOSITEC Textile Engineering Co. LTD.
No. 410 Stone District Residential Community of Huangdao
Municipal Bureau of Qingdao Development Zone, P.R. CHINA

THIS CONTRACT IS MADE BY AND BETWEEN THE BUYER AND SELLER; WHEREBY THE PART B AGREE TO BUY AND THE PART A AGREE TO SELL THE UNDERMENTIONED COMMODITY ACCORDING TO THE TERMS AND CONDITIONS STIPULATED BELOW:

	ITEM	QUANTITY	U'PRICE(EUR)	AMOUNT(EUR)
1	Non-woven fabric (FES 25g/m2)	18696 LM	0.105	1,970.36
2	SAP Powder	158.7 Kg	3.05	484.04
3	Carbon Black liquid	246 Kg	2.35	578.10
4	PN8 water dispersion of acrylic ploymer	62.4 Kg	1.75	109.20
5	Defoamer	3 Kg	12.25	36.75
6	Card Core	0.4 Kg	0.41	0.16
7	Water dispersion of PVA	5.28 Kg	1.53	8.08
8	Adhesive tape	5.94 Kg	19	112.86
	Total:			3,299.75

2. Shipment

(1) destination port
of the materials: QINGDAO, CHINA.

(2) Time of shipment of the materials:
BEFORE June, 20, 2008

3. Term of payment: T/T

Party A: Tekstilna Tovarna Okroglica d.d.



(3) destination port
of the products: SLOVENIA and the other countries

(4) Time of shipment of the products:
BEFORE June, 20, 2008

Party B: Qingdao SINOSITEC Textile Engineering Co. LTD.




Appendix 4: Chu Kou Huo Wu Bao Guan Dan

收汇核销联

主 页

中华人民共和国海关出口货物报关单

预录入编号: 109358783 海关编号: 070777223138

出口口岸	109358783	备案号	出境日期	070777223138	申报日期	2007-09-18																																																																						
经营单位	青开发区 4218	运输方式	04 铁路整车	20 海运	2007-09-18																																																																							
发货单位	青岛斯诺泰纺织品工业有限公司	贸易方式	MSC VALENCIA/738	NMSCGSGS	境内货源地	电汇																																																																						
境内货源地	青岛斯诺泰纺织品工业有限公司	进料对口	0615	进料加工	(50)																																																																							
批准文号	成交方式	运费	(350)	斯洛文尼亚	(350)	杂费																																																																						
合同协议号	件数	包装种类	2500	毛重(公斤)	0.3%	净重(公斤)																																																																						
集装箱号	随附单据	40	包	生产厂家	9025																																																																							
标记唛码及备注																																																																												
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>项号</th> <th>商品编号</th> <th>商品名称</th> <th>规格型号</th> <th>数量及单位</th> <th>最终目的国(地区)</th> <th>单价</th> <th>总价</th> <th>币制</th> <th>征免</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>56039210</td> <td>阻水带</td> <td></td> <td>1533.000 千克</td> <td>斯洛文尼亚</td> <td>0.2261</td> <td>9258.07 EUR</td> <td>全免</td> <td></td> </tr> <tr> <td>(4)</td> <td></td> <td>TT0/C/135/35/克/平方米</td> <td></td> <td>40940.000 平方米</td> <td>斯洛文尼亚</td> <td>0.5973</td> <td>15582.25 EUR</td> <td>全免</td> <td>用途:</td> </tr> <tr> <td>2</td> <td>56039310</td> <td>阻水带</td> <td></td> <td>2578.000 千克</td> <td>斯洛文尼亚</td> <td>0.7463</td> <td>32865.19 EUR</td> <td>全免</td> <td></td> </tr> <tr> <td>(6)</td> <td></td> <td>TT0/C/206/95克/平方米</td> <td></td> <td>26087.820 平方米</td> <td>斯洛文尼亚</td> <td>0.7463</td> <td>32865.19 EUR</td> <td>全免</td> <td>用途:</td> </tr> <tr> <td>3</td> <td>56039310</td> <td>阻水带</td> <td></td> <td>4914.000 千克</td> <td>斯洛文尼亚</td> <td>0.7463</td> <td>32865.19 EUR</td> <td>全免</td> <td></td> </tr> <tr> <td>(7)</td> <td></td> <td>TT0/C/207/105克/平方米</td> <td></td> <td>44037.500 平方米</td> <td>斯洛文尼亚</td> <td>0.7463</td> <td>32865.19 EUR</td> <td>全免</td> <td>用途:</td> </tr> </tbody> </table>							项号	商品编号	商品名称	规格型号	数量及单位	最终目的国(地区)	单价	总价	币制	征免	1	56039210	阻水带		1533.000 千克	斯洛文尼亚	0.2261	9258.07 EUR	全免		(4)		TT0/C/135/35/克/平方米		40940.000 平方米	斯洛文尼亚	0.5973	15582.25 EUR	全免	用途:	2	56039310	阻水带		2578.000 千克	斯洛文尼亚	0.7463	32865.19 EUR	全免		(6)		TT0/C/206/95克/平方米		26087.820 平方米	斯洛文尼亚	0.7463	32865.19 EUR	全免	用途:	3	56039310	阻水带		4914.000 千克	斯洛文尼亚	0.7463	32865.19 EUR	全免		(7)		TT0/C/207/105克/平方米		44037.500 平方米	斯洛文尼亚	0.7463	32865.19 EUR	全免	用途:
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税费征收情况																																																																												
录入员	录入单位	兹声明以上申报无讹并承担法律责任			海关审单批注及放行日期(签章)																																																																							
报关员					审单																																																																							
单位地址					征税																																																																							
邮编	电话				放行																																																																							
		填制日期																																																																										

青岛前程环球海空运有限公司

签发日期: 2007-10-11

Appendix 5: Commercial Invoice



COMMERCIAL INVOICE

Shipper/Exporter

Qingdao SINOSITEC Engineering Textile Co. LTD.
No. 452 South of qianshan Road of Huangdao MB of QDZ
PC:266555 HUANGDAO-QINGDAO(Shandong)P.R.CHINA
Tel:0532-80982703 FAX:0532-80982705

For Account & Risk of Messrs

TT OKROGLICA d. d.
TEKSTILNA TOVARNA OKROGLICA d. d.
ID s l za DDV:ST19783221

Dombrava 1
5293 VOLCJA DRAGA

Notify Party

SAME AS ABOVE

No. & Date of invoice

07-3Q0-000003

Transport:By vessel

Parity:CIF Koper

Payment:CASH IN ADVANCE

C42187420936

Port of loading **Final destination**
QINGDAO CHINA KOPER SLOVENIA
Carrier **Salling on or about**

Marks and Nos.	Description	Quantity	U/PCE (EUR)	AMOUNT (EUR)
07-3Q0-000003	Water-blocking Tape	40940 m ²	0,23	9258,07
	Water-blocking Tape	26087,82 m ²	0,60	15582,25
	Water-blocking Tape	44037,5 m ²	0,75	32865,19

MADE IN CHINA

TOTAL amount for payment:	EUR	57705,51
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General Manager: Bostjan KRIVEC

Appendix 6: Packing list



PACKING LIST

Shipper/Exporter

Qingdao SINOSITEC Engineering Textile Co. LTD.
No. 452 South of qianshan Road of Huangdao MB of QDZ
PC:266555 HUANGDAO-QINGDAO(Shandong)P.R.CHINA
Tel:0532-80982703 FAX:0532-80982705

For Account & Risk of Messrs

TT OKROGLICA d. d.
TEKSTILNA TOVARNA OKROGLICA d. d
Dombrava 1
5293 VOLCJA DRAGA

Notify Party

TT OKROGLICA d. d.
TEKSTILNA TOVARNA OKROGLICA d. d
Dombrava 1
5293 VOLCJA DRAGA

Port of loading Qingdao China
Final destination Koper Slovenia
Carrier Salling on or about

No. & Date of invoice

07-3Q0-000003

Transport:By vessel

Parity:CIF Koper

Payment:CASH IN ADVANCE

Marks and Nos.	Description	Quantity	N/W (KGS)	G/W (KGS)
07-3Q0-000003	Water-blocking Tape	40940 m ²	1533	
	Water-blocking Tape	26087,82 m ²	2578	
	Water-blocking Tape	44037,5 m ²	4914	

MADE IN CHINA

TOTAL :	40 ROLLS	9025	9395
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General Manager: Bostjan KRIVEC

Appendix 7: Ti Yun Dan



EVERGREEN LINE

A Joint Service Agreement consisting of Evergreen Marine Corp. (Taiwan) Ltd.,
Italia Marittima S.p.A., Evergreen Marine (UK) Ltd. and Evergreen Marine (Hong Kong) Ltd.

BILL OF LADING

NOT NEGOTIABLE UNLESS CONSIGNED TO ORDER
ORIGINAL

(2) Shipper/Exporter (complete name and address) QINGDAO SINOSITEC ENGINEERING TEXTILE CO.LTD.		(5) Document No. 140720515241	
Shipper code		(6) Export References	
(3) Consignee (complete name and address) (unless provided otherwise, a consignment "To Order" means To Order of Shipper) TEKSTILNA TOVARNA OKROGLICA D.D. DOMBRAVA 1 5293 VOLCJA DRAGA TEL:386-5330-5138 FAX:386-5330-5166		(7) Forwarding Agent	
(4) Notify Party (complete name and address) TEKSTILNA TOVARNA OKROGLICA D.D. DOMBRAVA 1 5293 VOLCJA DRAGA TEL:386-5330-5138 FAX:386-5330-5166		(8) Point and Country of Origin (for the Merchant's reference only)	
Notify code		(9) Also Notify Party (complete name and address)	
(12) Pre-carriage by	(13) Place of Receipt/Date QINGDAO, CHINA	In Witness Whereof, the undersigned, on behalf of the Carrier and Vessel Provider, Italia Marittima S.p.A., has signed the number of Bill(s) of Lading stated below, all of this tenor and date, one of which being accomplished, the others to stand void. (10) Onward Inland Routing/Export Instructions (for the Merchant's reference only)	
(14) Ocean Vessel/Voy. No. DAJINXIANG 7932	(15) Port of Loading QINGDAO, CHINA		
(16) Port of Discharge KOPER	(17) Place of Delivery KOPER		
Particulars furnished by the Merchant			
(18) Container No. and Seal No. Marks & Nos. CONTAINER NO./SEAL NO.	(19) Quantity And Kind of Packages 1 X 40'	(20) Description of Goods TAPES&WATER BLOCKING TAPES "OCEAN FREIGHT PREPAID" SHIPPER'S LOAD & COUNT 121 PACKAGES	(21) Measurement (M³) Gross Weight (KGS) 34.0000 CBM 9,988.000 KGS
(22) TOTAL NUMBER OF CONTAINERS OR PACKAGES (IN WORDS) ONE (1) CONTAINER ONLY	(23) Declared Value \$ If Merchant enters actual value of Goods and pays the applicable ad valorem tariff rate, Carrier's package limitation shall not apply.		
(24) FREIGHT & CHARGES	Revenue Tons	Rate Per Prepaid AS ARRANGED	Collect
(25) B/L NO. EGLV 140720515241	(27) Number of Original B(s)/L THREE (3)	(29) Prepaid at QINGDAO, CHINA	(30) Collect at
(26) Service Type/Mode FCL/FCL O/O	(28) Place of B(s)/L Issue/Date QINGDAO, CHINA DEC.19,2007	(31) Exchange Rate QINGDAO GRANT & CO. LTD.	(32) Exchange Rate
	(33) Laden on Board DEC.19,2007 DAJINXIANG 7932 QINGDAO, CHINA		

FORM NO. DOC100401 (TERMS OF BILL OF LADING ARE CONTINUED ON THE BACK HEREOF AND ENLARGED VERSION OF BACK CLAUSE IS AVAILABLE ON www.evergreen-line.com)
Agent for the Merchant: **QINGDAO GRANT & CO. LTD.** (1)

Appendix 8: He Xiao Dan

出口收汇核销单
存根

编号: 089194898

出口单位:	
单位代码:	
出口币种总价:	
收汇方式:	
预计收款日期:	
报关日期:	
备注:	
此单报关有效期截止到	

出口收汇核销单
监管章

编号: 089194898

出口单位:

单位代码:

类

别

币种金额

日期

盖

章

银行签注栏

海关签注栏:

外汇局签注栏:

年

月

日 (盖章)

(出口单位盖章)

(海关盖章)

出口单位:

单位代码:

货物名称

报关单编号:

外汇局签注栏:

Appendix 9: Custom clearance list for import

JG03

000000000617831108

数据中心统一编号: 00000000617831108

中华人民共和国海关进口货物报关单

进料加工专用

预录入编号: 188960877

海关编号: 421820081188960877

进口口岸 (4218)	申报现场: 备案区 (4218)	进口日期: 188960877	申报日期
经营单位 (3702249951)	运输方式: 874	运输工具名称: 20080506	提运单号: 20080506
收货单位: 青岛诺泰纺织品工业有限公司 (3702249951)	贸易方式: JIN DA/81 (0615)	征免性质: JD0817KQ5 (503)	征免比例
许可证号: 青岛诺泰纺织品工业有限公司	进境国(地区): 进境口岸: (116)	进境加工: (116)	境内目的地: (37022)
批准文号	成交方式	运费: 日本	保费
合同协议号	件数: 17	包装种类	毛重(公斤): 净重(公斤):
集装箱号: 05	随附单据	其它: 4890	用途: 4800
标记唛码及备注: 其它			
备注: 随附单号			
项号	商品编号	商品名称、规格型号	数量及单位
1	39023090.00	吸水粉	4800 千克
(1)		交联聚丙烯颗粒	4800 千克
			日本 (116)
			2.7300
			13104.00
			(502) 全免
			美元
税费征收情况			
<div>青岛海关</div>			
录入员	录入单位	兹声明以上申报无讹并承担法律责任	海关审单批注及放行日期(签章)
报关员: 00032592			审单 审价
单位地址		申报单位(签章)	征税 统计
邮编	电话: 5699141	青岛恒运达国际物流有限公司	查验 放行
		填制日期: 2008.05.06	

* 4 2 1 8 2 0 0 8 1 1 8 8 9 6 0 8 7 7 *

1/1

Appendix 10: Opinion poll of customer satisfaction

Spoštovani kupec!

Prosimo vas, da si vzamete nekaj časa in ocenite naše sodelovanje v preteklem letu _____, ter nas primerjate z drugimi dobavitelji. Anketo lahko vnete po elektronski pošti ali na fax št.: _____. Za sodelovanje se vam najlepše zahvaljujemo.

ANKETA O ZADOVOLJSTVU KUPCEV

Kupec:						Izpolnil:			
Vrsta izdelkov:						Datum:			
Št.	Področje ocenjevanje	Označite z X ocena 5 max					Podjetje v primerjavi s konkurenco		
		1	2	3	4	5	Boljše	Enako	Slabše
1. Splošno mnenje kupca o dobavitelju									
1.1.	Prijaznost in dostopnost našega osebja								
1.2.	Odzivnost na naročila								
1.3.	Tehnična podpora kupcu								
2. Mnenje kupca o proizvodih									
2.1.	Kakovost proizvodov								
2.2.	Točnost in zanesljivost dobav								
2.3.	Cena proizvodov								
2.4.	Inovativnost, skupni razvoj								
2.5.	Obravnavanje reklamacij								
3. Mnenje kupca o dolgoročnem sodelovanju									
3.1.	Primernost za dolgoročno sodelovanje								
3.2.	Primeren za ponovne nakupe								
4. Predlogi kupca za izboljšavo (Opišite)									
5. Zakaj kupujete proizvode ali storitve od nas?									
Izpolni:		Skupno število točk:		<input type="text"/>					
Podjetje:		Skupno število možnih točk:		<input type="text"/>					
		Ocena:		<input type="text"/> %					