

DEVELOPING DISTRIBUTION CHANNELS FOR THE CHINESE TEXTILE INDUSTRY

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Bachelor's Thesis
June 2010

Degree Programme in Logistics Engineering
Technology, communication and transport



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Author(s) HE, YI	Type of publication Bachelor's Thesis	Date 01/06/2010
	Pages 53+5	Language English
	Confidential	Permission for web publication (X)
Title DEVELOPING DISTRIBUTION CHANNELS FOR THE CHINESE TEXTILE INDUSTRY		
Degree Programme Degree Programme in Logistics Engineering Program		
Tutor(s) Keskinen, Mikko. Senior Lecturer		
Assigned by Hai Xu Textile Company		
Abstract The main target of this thesis was to develop distribution channels for Hai Xu Textile Company by choosing a new distribution model with the aim to save costs through the new distribution channel and assist the company to survive during the textile industry innovation period. The research method of this thesis was qualitative, based on interviews, observation and consultancy. In the thesis, export management companies and ship agencies were consulted about their range of service, quality of service, charges and efficiency. Comparison and connections among distribution channels and efficiency, profit, company development were shown. According to all the collected information and data, an analysis and a recommendation were provided. The investigation focused on the distribution channels from the completed products to their direct overseas customer instead of the end customers. In the selection and suggestion of the export management companies, only the Chinese export management companies were concentrated on. Some unstable factors were ignored, such as the changing exchange rate, tariff refund. Since Hai Xu Company does not directly contacts their foreign customers, an important export management company in Shanghai is mentioned and as well as the transactions between them.		
Keywords Distribution Channels, Export Management Company, Export, Chinese Textile Industry, Handling Charge		
Miscellaneous		

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1. INTRODUCTION

1.1 Research Problems and Objectives

The main target of this dissertation was to develop distribution channels for Hai Xu Textile Company by choosing a new distribution model. This company is located in the middle part of China and responsible for manufacturing textile clothing products which are mainly exported to Europe.

The main problem in Hai Xu Textile Company is their low profit and low efficiency, which are mainly caused by their distribution channels. Extensive wastes of time, money and resources exist in the current export model. Their problem is also related to the role transition of the Chinese textile export in recent years. Chinese textile export has been facing a challenge especially recent years encountering with financial crisis. Therefore it is significant for Hai Xu Textile Company to seek new channels for their export business.

In the thesis, export management companies and ship agencies were consulted about their range of services, quality of services, charges and efficiency. Comparison and connections among distribution channels and efficiency, profit, company development were shown. According to all the collected information and data, analysis and recommendation were provided.

The objective was to save costs through the new distribution channel and assistance the company to survive during the textile industry innovation period. Moreover, the thesis gave the author opportunity to combine practice and theories I acquired school. The completed thesis will be handed to Hai Xu Company.

1.2 Research Method and Limitations

The research method of this thesis was qualitative, based on interviews, observation and consultancy. Observation and knowledge about this company came from the experience of my internship in this company. During that time, I was involved in the manufacturing process and the business transactions with the export management company. The theoretical part applied in the thesis is based on the knowledge acquired in Jamk University of Applied Sciences, books and internet.

My investigation focused on the distribution channels from the completed products to their direct overseas customer instead of the end customers. In the selection and suggestion about the export management companies, only the Chinese export management companies were concentrated because the calculations of handling charges and acting models differ in different countries. In the cost analysis, the focus was what percentage Hai Xu will spend by cooperating with different export management companies and their performance, and if Hai Xu are exported by itself, how much extra resources they would require and what challenges they would have. Some unstable factors are ignored, such as changing exchange rate, tariff refund. Since Hai Xu Company does not directly contact their foreign customers, an important export management company in Shanghai is discussed as well as the transactions between them.

2. COMPANY PRESENTATION

2.1 Hai Xu Textile Company

Hai Xu Textile Company is a Chinese company whose core business is to manufacture textile products which are exported to foreign countries. Their products are textile clothing goods, such as T-shirt, pajamas, and some other

kinds of clothes which are mainly made from cotton. 75% of their products are exported to Europe and 20% are exported to Canada, the rest 5% of those are exported to some other countries, for example, South Africa. Hai Xu has 39 officers and 203 employees in total which includes also temporary employees. The turnover of last year was 2,1 Million Euros. Their target groups are adults and children. Recent years half of their orders have been for kids. (Basic information about Hai Xu Textile Company.

<http://www.socom.cn/company/2161056.html>) .

Hai Xu is located in Wuhan, Hubei Province, which is in the middle part of China as it is marked in the following map:



FIGURE 1. Location of Hai Xu Textile Company

Since businesses in the inland area are not international, it is more difficult for these companies to attract international businesses as companies in coastal areas, such as Shanghai, Shenzhen. Secondly, as small-size companies, they do not own the export license. Therefore most export businesses in the inland area choose to cooperate with export management companies in Shanghai or other coastal areas in order to successfully handle their export trade. Hai Xu has applied the same method in their business. Their basic trade model can be shown in the following figure:

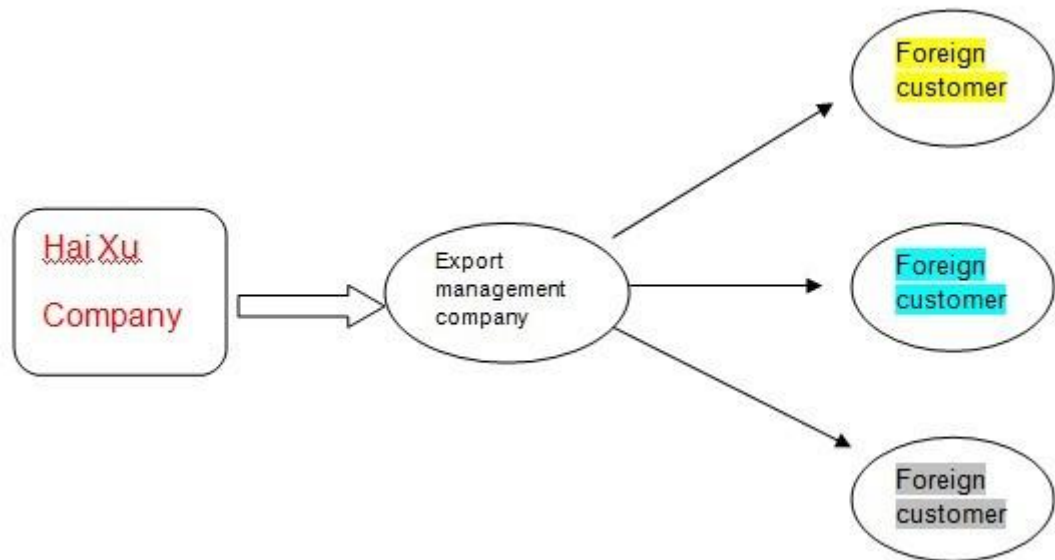


FIGURE 2. Basic trade model in Hai Xu

2.2 History and Present

2.2.1 Foundation and growth

At the beginning of their business, Hai Xu focused on domestic textile trade, they manufactured textile goods and sold them in the domestic market, however, at that time, the domestic demand of textile clothing goods was not high which was mainly due to the low standard of living. Furthermore, since state-owned business played the main role in the domestic market at that time, it was difficult for private businesses to survive. Therefore, Hai Xu started to transfer its target market to foreign countries.

In 1995, Hai Xu's products were simple and limited; they only manufactured pajamas of simple styles for adults. With the development of the company, nowadays, their range of products covers from simple pajamas to kids' clothes and other complex cotton related products. This development is mainly due to the improvement in their facilities and employees' training. Hai Xu owns the whole production line from the dyeing line to ironing line except the weaving department.

China entered WTO in 2001, which brought a big opportunity for the Chinese textile export industry and Hai Xu Company as well. On the one hand, the export quota for textile goods was in an increased trend according to the agreement from ATC. On the other hand, the effect of entering WTO brought big changes in different areas of the life of the Chinese, which distributed to the development of textile industry directly. During that period Hai Xu gained opportunity to cooperate and contact with more foreign customers; most of those came from Europe. From then on, the main percentages about 75% of their orders have been from Europe. (Opportunities and challenges for Chinese textile industry since China's accession to WTO.

. <http://210.41.252.212:88/wto/5/gjsw/d4z/d7j.htm>.)

2.2.2 Mission

In recent years, the Chinese textile export industry has gradually been changing its role in China. In the last few decades, textile industry has played the main role in the export business in China. However, labor-intensive industry is transferring gradually to Malaysia and some other countries. The biggest challenge for Hai Xu is to survive in the stagnant environment and simultaneously expand their business in order to consolidate development of the company. This mission connects closely with the profit of the company in the future, which indicates it is necessary for the company to focus on how to reduce their cost in the whole supply chain.

2.2.3 Vision

It is the main task for the Chinese textile industry to achieve high-level quality of products and service, also for Hai Xu Company. Hai Xu aims to provide world-level products and service to their customers in order to stand out in this industry.

In recent years, the level of living in China has been improved which has led to larger requirements in textile products. With the increased domestic demand, Hai Xu is preparing to enter the domestic market and create their brand. Their future strategy is to expand export business and create new domestic market.

2.3 Textile Export Industry in China

2.3.1 Overview of Current Textile Export in China

According to the statistics from the Chinese Textile Industry Association, in 2009 the total value of the import and export of textile clothing products was 1 882,56 billion U.S. dollars, which took up about 8.53% of the total national imports and exports, but the number was still in a descending trend, which decreased by 9.61% compared to that of 2008. 1 713, 32 billion U.S. dollars were from export, which accounted for 14.26% of the total exports, but also decreased by 9, 65 billion U.S. dollars compared to the year 2008.

Since the financial crisis in 2008, Chinese textile export suffered serious impact and there appeared a tremendous decline in February 2009. The general situation of the Chinese textile clothing export industry can be illustrated by the following graph:



FIGURE 3. Trends of the Chinese textile clothing export Industry

In the above graph, the x-coordinate shows the months, from September to February while the y-coordinate shows the export value which is measured by the unit billion dollars. The purple column represents the total export value of the Chinese textile clothing products from September 2008 to February 2009 while the blue column stands for the value from September 2007 to February 2008. It is easy to notice that in January 2009, the export value of the Chinese textile products declined compared with that of the last year. And in February the situation was even worse.

In the later several months in 2009, the export business of textile clothing products retained negative growth throughout the year declining by 9.8%. From November 2009, textile export had been in an ascend trend. Growth of 25.1% in December was even achieved, which directly led to the export business of the entire textile clothing industry increasing to positive 4.48%. Therefore at the end of 2009, textile export finally showed positive increase facing the financial crisis.

The United States, Japan, and Hong Kong are ranked the top three big consumers in the Chinese textile export. In addition, in 2009 the amount of textile clothing products exported to the EU amounted to 370, 79 billion U.S. dollars, which decreased 7.13% compared to 2008. Among them textile products occupied 86.7 billion U.S. dollars.

On the whole, the trend of production of the textile clothing products remained consistent with the change of export situation in 2009. According to the data from the Chinese Textile Industry Association, the total number of garment production was 23.75 billion pieces. Among them, the cumulative production amount of textile garments was 13.583 billion pieces, which increased 8.39%. From the regional perspective, the sum of garment production in Guangdong, Zhejiang, Jiangsu, Shandong, Fujian and Jiangxi province accounted for more than 80% of the country's total output. (The decline trends in the Chinese textile clothing export and import in 2009. Referred to it 27.02.2010.

<http://www.sewworld.com/news/1/50044.html>)

2.3.2 SWOT analysis of Chinese textile export industry

Hai Xu Textile Company, as one member in the textile export industry, it is essential to realize the current situation and challenges in the industry. The following SWOT analysis illustrates the current situations for Chinese textile industry:

<p>Strength</p> <ul style="list-style-type: none"> ● Chinese textile industry has the most complete industrial chain. ● China has a good infrastructure to provide efficient service for textile export; this basic infrastructure includes the government, customs, banks, and commodity inspection. ● Chinese textile enterprises have high efficiency operation, rapid response, and excellent service ability in order to complete large quantity orders with good quality in the shortest time. 	<p>Weakness:</p> <ul style="list-style-type: none"> ● Textile clothing products are mainly in mid-level, a big gap exists compared with international advanced level. ● Lack of flexibility of management and operations. ● Lack of creative spirit and technical equipment.
<p>Opportunity:</p> <ul style="list-style-type: none"> ● Tariff of import raw materials is gradually reducing. ● For some developed countries, tariff of import textile products has declined. ● Elimination of quota restrictions. 	<p>Threat:</p> <ul style="list-style-type: none"> ● Textile clothing products are overproduced in the worldwide view, which leads to small profit margins. ● Textile industry is transferring to low labor countries all the time. With the development of economics in China, low labor strategy is gradually washed out.

FIGURE 4. SWOT Analysis of Chinese textile export industry

3. LITERATURE REVIEW

3.1 Definition of a Supply Chain and Logistics

According to Ayers and Odegaard (2006,7), "supply chain is the product life-cycle process comprising physical, information, financial, and knowledge flows whose purpose is to satisfy end-user requirements with physical products and services from multiple, and linked, suppliers." So we can say the basic three elements which build the supply chain are the flows of product, information and money. Information flow is for the purpose of supporting the flow of products while the financial factor is both the foundation and objective for the product flow. Without financial support, the products flow cannot find an initial stage. In turn, products flow is meaningless if it finally cannot result in financial achievement.

Waters (2003, 7) states that "every product has its own unique supply chain, and these can be both long and complicated." For instance, the supply chain of textile industry starts with growing cotton in a field and ends when a customer buys it in the shop. These complex processes require cooperation and integration among companies and industries instead of performing by unique organization.

Logistics is the process of planning, implementing, and controlling the efficient, effective flow and storage of raw materials, in-process inventory, finished goods, services, and related information from point of origin to point of consumption (including inbound, outbound, internal, and external movements) for the purpose of conforming to customer requirements. (Coyle, Bardi and Novack 2000, 7)

Logistics is responsible for managing the physical flow of products in order to achieve high customer satisfaction. Nowadays, logistics has been informatization and systematization in most developed countries while it is still a rising concept in some developing countries, such as China.

3.2 Distribution Planning

While logistics is treated as a means to achieve customer satisfaction, distribution activity is often seen as being synonymous with it. Peter and Attwood(1992, 2) think that "distribution logistics is the organization of a system for supplying products to customers in a satisfactory manner - that is, supplying the right products to the right places at the right time for the least cost. "

3.2.1 Strategic Planning

The first step in planning a distribution system is to define the system under your overall strategies. Therefore a flexible and appropriate strategic plan is important. According to Peter and Attwood (1992,17), "Strategic planning always precedes functional planning at all levels of an organization, because it means preparing plans for achieving objectives - the broader the objectives, the broader the strategic plans must be. "So it is essential to realize your objectives clearly before you make strategic planning and define your distribution system.

In general, there are five stages in the strategic planning process: mission & objectives establishment, environmental scanning, strategy formulating, strategy implementation and evaluation. The first and vital stage is to establish objectives and mission; all the remaining steps are based on the company's goals and current assessment, which includes assessment of your current strength and weakness, competitors and market potentials. Strategic planning provides a roadmap for success and helps to provide focus for all employees. It points specific results that are to be achieved and establishes actions for achieving them.

3.2.2 Selection of Distribution Channels

Most manufacturers cannot sell their products directly to the end customer, which means there are many intermediaries related in the distribution chain, which refers to the concept distribution channels. According to Gorchels, Marien, and West (2004, 5), "a channel is commonly defined as a set of interdependent organizations involved in the process of making a product or service available for consumption or use." In general, distribution channels are the methods how an organization makes their products or service enter the market.

There are two types of distribution channels, direct channels and indirect channels. Nowadays direct distribution channels are not popular since direct distribution indicates that the products go directly from the manufacturer to the end user. On the contrary, indirect channels are used, where mediators exist in the supply chain instead of directly selling products to the end user. The following figure simply illustrates direct selling and indirect selling:

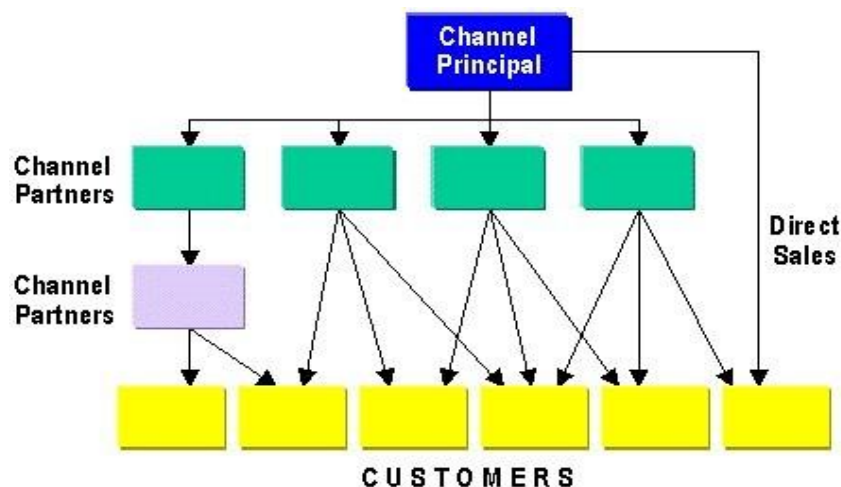


FIGURE 5. Examples of distribution channels

Companies select the best channels which suit for their products and service to achieve the best market share. This decision of distribution channels is complex and affected by multiple factors, one important factor among them is the understanding about your product. The company's position about the product directly influences the market place, price, target group and distribution channels. For example, if your products are positioned as daily consumption goods and aim at a low profit but a large sales quantity, then they should be distributed through all possible channels so as to be available in larger regions. The most important is, the selected channel must be in accordance with the image of the product that the customers perceive. (Gorchels, Linda, Marien, Edward J. West, Chuck. The Manager's Guide to Distribution Channles. Referred to it 2004.

<http://site.ebrary.com.ezproxy.jamk.fi:2048/lib/jypoly/docDetail.action?docID=10065202&p00=distribution+channels>)

Indirect channels are used in Hai Xu's distribution model; the export management company in Shanghai plays a momentous role and is responsible for the following duties:

- Make contract with Hai Xu and be responsible for organizing negotiating meetings with foreign customers for the purpose of getting orders
- Confirm the orders with foreign customers
- Prepare all export documents and handle customs related procedures
- Arrange shipping issue
- Arrange insurance issue
- Deal with receivable matters and plant payments
- Deal with tariff refund.

The export management company performs like a bridge to connect Hai Xu and their customers. In turn, that indicates that Hai Xu depends on the export management company too much. Since the export management company is

responsible for organizing negotiating meetings with foreign customers, that means Hai Xu has even outsourced their sales department.

Dependence on the export management company leads to three main problems in Hai Xu. One is that Hai Xu has outsourced their sales department which means less direct contact with their customers; this may affect their quality of service and forecast of demand. Too much outsourcing may let the company loss of managerial control since it is harder to manage outside service providers than manage Hai Xu's own employees. Another problem is that too much cost exists in distribution. The biggest problem is that Hai Xu is gradually losing the flexibility in reacting to changing business conditions. They have adopted this distribution channel and the same export management company since they started their export business.

3.2.3 Cost in Distribution

Distribution cost refers to the cost of moving goods from the point of production to the point of consumption except the manufacturing cost, it involves cost incurred by channel partners. Distribution cost is one of the largest cost components for most businesses. There are mainly five ways to reduce distribution cost for organizations:

- Eliminate unproductive labor
- Improve equipment performance
- Reduce material usage and waste
- Improve space utilization
- Redesign distribution channels or change channels partners.

In this research, cost comparison is made on the basis of calculating of the total cost of a batch of export products. Distribution cost in Hai Xu is high which is mainly due to the export management company charging a high payment which is about 2, 6% of the customs declaring value, making the low-profit industry even harder.

The total cost of export products can be presented as:

Total cost of export products= $G+Quota+A+F1+(I+F) \times RateI-V$, in which

- “G” stands for EXW price
- “Quota” stands for export amount
- “A” stands for handling charge for export management company
- “F1” stands for transportation cost from factory to port
- “F” stands for ocean freight
- “RateI” stands for exchange rate
- “V” stands for tariff refund
- “I” stands for shipping insurance.

Reducing the total cost is an effective way to get more profit for Hai Xu. In the above formula, the handling charges for export management company and ocean freight still have large space to be improved.

4. SUPPLY CHAIN IN HAI XU COMPANY

4.1 Order Reception Process

In export trade there are mainly ten procedures from the beginning of order reception to the end when the customers get the goods: define quotation, confirm orders, ensure payment, prepare products, packaging, customs procedures, arrange insurance issue, ship products, receive orders, and get paid. As mentioned above, some of these processes are implemented by the export management company in Hai Xu’s business process.

Define quotation Export trade always begins with defining a quotation and negotiating a price. The export management company organizes several meetings per month for its cooperated manufacturing companies include Hai

Xu Company. The main target of this kind of meeting is to get orders through competitive biddings. There are two main factors that affect order allocation, workload and quotation. Since these manufacturing companies have different sizes and labor capacities, so it is necessary for customers to consider if the manufacturing company can complete the order on time. Quotation is the main point that affects the order competition, so a reasonable quotation is quite important for Hai Xu Company. Negotiating stuff includes products quality level, packaging requirements, products, amount, arrival time, transportation, materials of products and some detailed requirement in manufacture.

Confirm orders Upon getting receipt of a purchase order from a foreign buyer, Hai Xu immediately send him a proforma invoice for confirmation. An order is confirmed when the proforma invoice is signed and returned to the Hai Xu Textile Company by the buyer.

Ensure payment The payment can be insured by two methods. One is the foreign customer directly transfers the payment to the export management company' s account, the other method is to offer letter of credit through a local authorized agent bank. Agusti and Earle (2009, 232) state that "a letter of credit is an obligation of a bank, usually irrevocable, issued on behalf of their customer and promising to pay a sum of money to the beneficiary upon the happening of a certain event or events. "In short, a letter of credit is a kind of certification to guarantee the customer will pay after receiving the order.

4.2 Production Management

4.2.1 Aim

From the big perspective, Hai Xu's production management belongs to assembly manufacture, which means the movement of the materials is

according to the sequence of craftworks and in the movement they gradually change their forms and functions. This kind of manufacturing involves a number of processing units, equipments and workers since the diversification of the spare parts, which leads to the collaborative relationship in the production process.

The aim of Hai Xu's production management is to offer good quality products to customers according to the required quantity and form at a proper price. The basic task for Hai Xu in production management is to manufacture qualified products in an efficient way, which refers to rapid production of products that meet customer needs with the minimum consumption of human and material resources. Low-consumption is for the purpose of a low price; in addition, the low prices of high-quality products are for the purpose of satisfying customers.

Flexibility is another task for Hai Xu. Flexibility refers to producing and developing new products or different types of services in order to quickly adapt to the dynamic demand.

4.2.2 Production Strategy

Hai Xu executes the make-to-order strategy in their production management.

MTO is a business production strategy that typically allows consumers to purchase products that are customized to their specifications. The make to order (MTO) strategy only manufactures the end product once the customer places the order. This creates additional wait time for the consumer to receive the product, but allows for more flexible customization compared to purchasing from retailers' shelves. (INVESTOPEDIA. A Forbes Digital Company. Make To Order-MTO. <http://www.investopedia.com/terms/m/make-to-order.asp>)

The order quantity in Hai Xu ranges from 1000 pieces to 150 000 pieces, which means labor capacity needs to be considered and arranged properly. Due to this strategy, Hai Xu's inventory level is low. There are only several popular types of finished products in the inventory, including some strategic

products, such as T-shirts with traditional Chinese patterns. This kind of products is popular in the negotiating meetings and let Hai Xu be dominant in competitors. However, strategic products have both high profit and high risk.

It is necessary to realize the vital role of manufacturing cost in this industry since the profit is low. Hai Xu Company outsources some small parts, such as button, zipper, and lace. For the cloth, they purchase yarn and assign it to a contracted company which is responsible for manufacturing cloth from the raw material yarn. Both complete-outsourced and semi-outsourced material, they are carefully planned in Hai Xu's MRP. For this low-value density industry, there are plenty of suppliers; however obvious discrepancy exists in their reputation and quality. The principle in Hai Xu's purchasing is to purchase the most suitable material instead of the cheapest, suitable here refers to a certain quality material at a proper price. They believe it wastes more resources when rework or order rescission happens.

4.2.3 Waste elimination

Companies have to execute certain production systems which cost less and can quickly response to the demand. The trend of world-level production can be shown in the following:

- Simpler production lines
- Less investment in equipment
- Lower inventory level
- Higher utilization of space
- Shorter production cycle
- Faster delivery
- Less resource consumption
- Higher efficiency.

Therefore thrift is one of the effective ways to strengthen the organization and contribute to achieving the world –level production. In Hai Xu two methods are applied in this field.

Location decision-making Since distribution of resources and environment differ in different areas, the acquisition of resources, price of resources and government policies of resources may exist diversity when an organization choose a different location for its business, which can directly affect the profit of the organization.

The view of the best location for a business, or for one of its various functions, can vary widely depending upon the seat in which one sits. A CEO is likely to focus on macro factors that significantly impact the corporate bottom line. All the individuals involved with operating cost structure and market positioning over an extended period of time usually provide their prism for view of a location's suitability. A corporate real estate executive charged with keeping real estate and facility costs down may focus more intently on the costs tied directly to a specific location and the terms of the real estate deal. And real estate services providers often evaluate a site or location based on the economic efficiency of a deal. Location decision-making is the process that focuses a company on incorporating all of these considerations in a strategic business context and delivers the best location for conducting a specific business functions. (Linda G. Tresslar, Managing Director, Strategic Consulting Group, Grubb & Ellis Co. Putting the location decision into a business context. Referred to it 11.06.

<http://www.areadevelopment.com/siteSelection/nov06/locationDecision.shtml>)

Hai Xu chose Wuhan for its business because Wuhan is in the non-coastal area where textile and other labor-intensive industries are centralized, which means Hai Xu can be predominant in the fields of acquisition of raw materials and price of materials. Moreover, it gives Hai Xu the opportunity to have more potential suppliers. Another benefit is the sufficient cooperation network. Cooperation includes formal and informal cooperation and communication. In this industry, the cooperation comprises cooperation between the company and its competitors, cooperation between the company and its suppliers and sellers. The cooperation between the company and its suppliers can guarantee Hai Xu's stable production and reduce its inventory. The cooperation between the company and its competitors can let Hai Xu acquire more technologies. The most significant is the informal communication in the industry which strengthens the sharing of information, knowledge and

information technologies, which stimulates creative measures and forms an interactive atmosphere at the same time.

The main factors that influence location decision-making are transportation cost and labor cost; in Wuhan labor is much cheaper than that in coastal areas. Since Hai Xu started their business as domestics' trade, so the transportation cost was not a problem at that time. Nevertheless, after Hai Xu transferred their domestics business to export trade, the transportation and communication with customers became a barrier that limited the development of the company.

Balance production load can reduce the impact caused by unbalanced plan. Hai Xu build a production plan every month according to the different requirements of orders. One way they use to solve the unbalanced production is to build the same combination of products every day. This work is implemented by ERP system which Hai Xu adopted this year.

4.3 Information Technology

With the advent of information society, more and more textile companies recognize the importance of information technology. Companies are making an effort to build information platforms no matter they are the leading companies or the rookies in this industry. They are for the sake of reducing manufacturing cost, shortening the response cycle and enhancing the terminal control.

Application of information technology in the Chinese textile industry can be divided into two levels. Firstly, centralization of technology information and job information, the second level is the informationized of production processes, achieving the whole process management from design, procurement to produce finished, including logistics cost and quality related activities. Nowadays, the majority of enterprises have entered the second level but the status of implementation is not satisfactory. According to a survey about the

ratio between investment of information technology and increase of sales in 2007, 55.56% of the surveyed enterprises invested between 0 ~ 19%, and 11.11% of the surveyed enterprises invested between 20% ~ 29% while only 3.33% of the surveyed enterprises' information investment achieve the level between 30% ~ 39%. To a certain extent, this low investment in information technology leads to the current situation of the clothing industry. (Investigation of informatization in Chinese textile industry. Referred to it 2007.

<http://www.mie168.com/manage/2008-03/225956.htm>)

Having realized the essence of investment in information technology for clothing enterprises, Hai Xu entered the second level of information work in the industry since they executed ERP this year and their objective is to build up an efficient information platform. In Hai Xu, ERP affects the management in the following fields:

- ***Solving the problem of complex fabrics, color, size and number of orders.*** In Hai Xu, ERP divides products into color groups, size groups, and component groups to simplify the complex styles, fabrics and colors. The dual-interface methods in ERP are applied to resolve the reports and printing problems.
- ***Collaboration of the whole production process.*** ERP is used to manage the whole process of design, proofing and handle the progress of research and development and costs in the whole supply chain in order to implement management of the whole flow.
- ***Providing a solution to track the progress of clothing production.*** ERP tracks the progress in production, including the progress of samples production, progress of procurement, progress of cutting and printing, progress of sewing and analyzing the actual production hours, cost and efficiency so as to early warn and adjust the progress.
- ***Contributing to calculating the cost easily and solve the cost control problem.*** ERP categorizes the large number of materials according to material types(main materials, auxiliary materials, packaging) and sub-groups (the former film after film, lining, zippers, plastic bags) in order to calculate the cost in a simple way.

Furthermore, ERP sorts a number of small processes into large operations, such as cutting, sewing, ironing, packing.

- **Scheduling the production process.** ERP plays as the brain of the production process, it can immediately arrange the combination of products in the manufacturing process according to working hours, labor capacity and equipments, and simultaneously supervise the progress of production in different departments.

4.4 Delivery Process

After the whole manufacturing process, the inspection for finished goods is executed by Hai Xu itself. Then the products will be delivered to the related inspection organizations as customers required. Through the inspection the foreign customers can check out if Hai Xu's products meet their requirement. The following figure shows a failed inspection of Hai Xu's products:

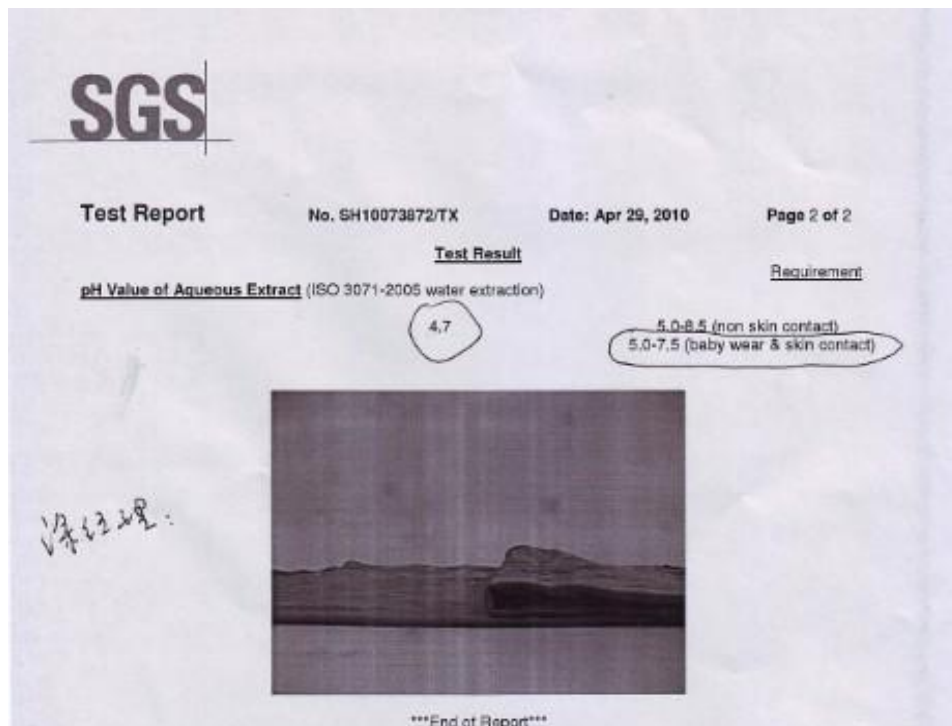


FIGURE 6. Example of failed pH text of Hai Xu's products

The pH text report above is completed by SGS, which is the world's leading inspection, verification, testing and certification company which is recognized as the global benchmark for quality and integrity.

If products fail the check, this batch of products is needed to be reproduced in certain manufacturing processes. If products successfully pass the check, Hai Xu will inform the export management company begins to arrange the shipping issue.

The export management company will inform the ship agency about the products cubic volume, arrival time and the port of destination. After that the goods are transported from Hai Xu Company to the port of loading by trucks.

In China the most common Incoterms applied for textile export are CIF and FOB. For Hai Xu, they execute both CIF and FOB in their export trade. The way of export is not ruled by Hai Xu, some customers require to apply FOB since they have familiar ship agencies or they would like to control the ocean freight and delivery time, so that the method of export is always determined through negotiating.

“Cost, Insurance and Freight” means that the seller delivers when the goods pass the ship’s rail in the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination but the risk of loss of or damage to the goods, as well as any traditional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer. (INCOTERMS 2000, 164)

According to INCOTERMS 2000, “Free On Board’ means that “the seller delivers when the goods pass the ship’s rail at the named port of shipment. The buyer has to bear all costs and risks of loss of damage to the goods from that point.” We can get the following formula according to the description:

$CIF = FOB + \text{Ocean freight} + \text{insurance}$

In CIF, the seller is responsible for arranging shipment and insurance while in FOB the buyer controls these. In this research, I will focus on the CIF method.

Finally the export management company will send the bill of lading to the bank of which the customer has a letter of credit. Bill of lading, which is usually presented as "B/L", it is an essential document in the export business since it performs three important functions. The first function is, B/L represents physical goods, which means B/L can be sold or transferred. By transferring B/L, the goods may be sold even when they are in transit. Second, B/L is a contract of carriage. Moreover, B/L is a receipt which can evidence the goods has been loaded on the board in the promised quality and quantity. B/L is issued by the carrier; here it is the export management company.

When the goods arrive, the bank gives the Shipment Release Form to the customer, so the customer can get their orders. At the same time, the bank transfers the payment from this customer's account to the export management company.

5. DEVELOPING HAI XU'S DISTRIBUTION CHANNELS

5.1 Current Distribution Channels

5.1.1 Category of Distribution and Model

Exporting is treated as a firm's first step to enter the international market. It is relatively simple compared to other types of international businesses, such as investment or licensing. For small firms, like Hai Xu, exporting provides it with an opportunity to contact new customers and markets. Exporting requires less investment and the risks are manageable as well as for most businesses.

Exporting can be generally divided into two categories, direct exporting and indirect exporting.

Direct exporting refers to a type of exporting where the exporter, often a manufacturer, assumes responsibility for most of the export functions, including marketing, export licensing, shipping, and collecting payment while indirect exporting is used by companies that do not have the experience, personnel, or capital to tackle a foreign market by themselves. (Agusti and Earle 2009, 10.)

Obviously indirect exporting is applied in Hai Xu since they do not handle the export-related functions.

The export management company, commonly called EMCs, they are independent firms which deal with export-related responsibilities for manufacturers or other exporters. Export management companies never provide advice or train on how to export. Export management company often engage in foreign market research, establish foreign channels of distribution, exhibit goods at foreign trade shows, work with foreign sales agency, prepare document for export, handle language translations and shipping arrangement. Many export management companies specialize in specific foreign markets or industries. (Agusti and Earle 2009, 11.)

Having cooperated with the current export management company, the whole export process for Hai Xu can be expressed as the following picture:

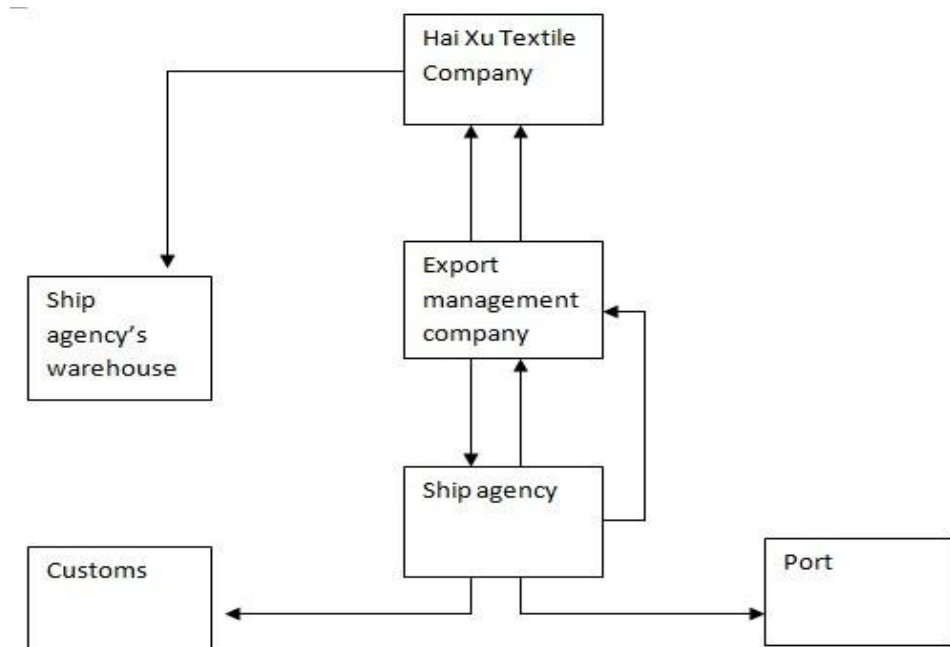


FIGURE 7. Current delivery process in Hai Xu

The above picture illustrates the business transactions among Hai Xu Textile Company, the export management company and ship agency, the steps after

inspection for finished products can be described as: (1) Export management company informs the ship agency about the type of products, amount, arrival time and port of destination and sends the customs related documents to the ship agency. (2) Ship agency finds the best time and rate, then advice export management company of suggested solution. (3) Export management company agrees on suggested solution and tells Hai Xu to transport their cargo to ship agency's warehouse. (4) Ship agency loads cargo into container and deals with customs clearance. (5) Exportation is permitted by Customs. (6) Ship agency informs export management company about customs permission and prepares to move container to port. (7) Ship agency moves container to port and waits for load on board. (8) Export management company informs Hai Xu that the products are successfully delivered.

5.1.2 Cost and Problems in the Current Distribution Channels

In the current distribution model, time and resource waste in the communication and confirmation between Hai Xu and the export management company. For Hai Xu there are three reasons pushing them to adopt this distribution model. First, Hai Xu doesn't have professional employees who are familiar with preparing customs related document and insurance issue which is due to the dependence on this export management company since they start their export business. Second, Hai Xu has been successfully cooperate with the export management company and has very good partnership. Above all, for foreign customers, they prefer to go to Shanghai when they choose suppliers, this is because plenty of sales offices are set in Shanghai so that the foreign customers can have more options.

Handling charge for export management company can be divided into two types; one is calculation which is based on buyout price while another type is based on the form of proxy fees. Due to the current unstable exchange rate, there are a few export management companies charge according to buyout price method. Furthermore, these two methods are the same in substance; the biggest difference is the time of tariff refund. The second method which is based on the form of proxy fees is calculated according a certain percentage.

For example, the handling charge is 1% of the customs declaring value. Obviously, the smaller this percentage is the less handling charge you need to pay.

In the cost analysis of the current distribution in Hai Xu, Hai Xu provided the related figure of a batch of clothes which exported to Gdansk in the October of 2009. I choose to calculate and compare the cost of this batch of export products. Here is the basic information of this batch of products: 20, 000pcs textile clothes from Yangshan Port (in Shanghai China) to Gdansk port (in Poland).

The calculation of cost of this batch of products is shown as the following and in order to calculate easily I translate all unites into the Chinese unit of currency RMB and all the numbers are presented as estimated integers:

Total cost of export products= $G+Quota+A+F1+(I+F) \times Rate1-V$, in which

- “G” stands for EXW price. According to INCOTERMS (2000, 132), “Ex works means that the seller delivers when he places the goods at the disposal of the buyer at the seller’s premises or another named place. Not cleared for export and not loaded on any collecting vehicle. ”So EXW price is not include the commodity inspection charge, customs clearance charge, transportation fee or any other extra fees. In this case, the EXW price for this batch product is 493000RMB.
- “Quota” stands for the cost related to quota restriction. Here it is 132100RMB.
- “A” stands for handling charge for export management company and it equals $(G+Quota+F1+(I+F) \times Rate1) \times 2,6\%$.
- “F1” stands for transportation cost from factory to port. The cost here is 340RMB.
- “F” stands for ocean freight. The cost for ocean freight in this case is 13570RMB .The ship agency is not a fixed one, since FOB and CIF are both applied in Hai Xu’s business; ship agencies sometimes are designated by customers.

- “Rate1” stands for exchange rate. We assume the exchange rate at that time is 10.
- “V” stands for tariff refund. Here the tariff refund for textile clothing is 72700.
- “I” stands for shipping insurance. It is 660 RMB.

First according to the formula $A = (G + \text{Quota} + F1 + (I + F) \times \text{Rate1}) \times 2,6\%$, we get the handling charge is $A = (493000 + 132100 + 340 + (660 + 13570) \times 10) \times 2,6\% = 19961$ RMB

Total cost of this batch of export products = $G + \text{Quota} + A + F1 + (I + F) \times \text{Rate1} - V = 493000 + 132100 + 19961 + 340 + (660 + 13570) \times 10 - 72700 = 715000$ RMB

From the above calculation, the cost for this batch of products are made up of EXW price, cost related to quota restriction, handling charge, transportation cost from factory to port, ocean freight, exchange rate, tariff refund and shipping insurance. Among these factors, what we cannot change are cost related to quota restriction, tariff refund and exchange rate. Since the transportation cost from factory to port is already low and it accounts for very small part in the cost calculation, so it is not the main factor affect the total cost. The insurance cost actually depends on which kind of insurance the carrier brought. Then EXW price here includes too many things, such as the raw material cost, labor cost, and electric cost, storage cost and so on, but it is not related to the distribution channels. Therefore the discussion points here are handling charge and ocean freight.

5.2 Indirect Exporting Through Other Cheaper Export Management Companies

5.2.1 Standard of Handling Charge

As we know handling charges differ a lot in different export management companies, for some export management companies, they really charge high and some of them charge extra cost. What are the reasons cause different charges and is there a normative standard. Actually different companies have different charging standards, but still follow some basic principles. Handling fee can be put into the following groups:

- Basic charge. There is big disparity for basic charge, some export management companies charge low as 0.5% while some charge 4%. But of course, for different types of products, this percentage differ, for example, the handling charge of electric products always higher than economic products and the various handling charge is also related to the services range and quality.
- Extra charge, including customs clearance charge, C /O (Certificate of Origin) charge, ocean freight (except FOB) , commodity inspection fee, license charge, courier fee, fax fee, traffic fee. For some export management companies, the basic charge is not high, but the total fee is relative high when adding these extra charges.
- Tariff refund. In the general conditions, after the export management company gets the payment it has to settle the account within the prescribed time, but they have different models for tariff refund. Some are willing to do advanced payment of the tariff refund (for some areas, such as Jiangsu, tariff refund is needed to wait, sometimes as long as 1 year. In the middle areas in China, the waiting time always is two months. Generally, these export management companies which provide advanced payment of tariff refund charge a little higher.

5.2.2 Selection of Export Management Company and Cost Comparison

In the indirect exporting, the selection of export management company is one of the main factors affect the successful of the business. According to the agents market in different areas of China, the handling charge varies from 0.5% to 5% of the customs declaring value. However, if you select an export management company which owns good qualification, the risk can be reduced to some extent. The qualification can be revealed in the size of the company, number of employees, location of the company, credit, and number of customers in the last year and reputation of the company.

Second, manufacturer has to ensure the makings of the employees in the export management company because your business is completed by them. The makings of employees here not only mean the knowledge or ability of the work, as well as the attitude. In the consultation, you can pretend yourself as a small company or a new comer and see their service and attitude.

Third, the handling charge problem. If an export management company charges extremely lower compared with other agencies, there must be another way they can charge the money back from you.

Furthermore, a first-class export management company should be proficient in handling the documents related to shipping, and ensure that the documents correct, clear and timely. The major shipping documents include the bill of lading, booking note, delivery order, packing list and so on. They also should understand and skilled handle the customs formalities and port operation process. In the import and export trade, customs clearance is one of the traditional functions of export management companies. In the dual relationship of the export management company and the customs administration and its customers, for the responsibility and functions of export management company, the laws and regulations in different countries differ, but the customs agent is usually by authorized by the government.

In addition, the lower transportation cost is also considered as an important factor, which means export management company needs to have goods partnership with shippers.

Except the above elements, as a export management company it is important to own the basic knowledge about shipping, geography and the trade model in different countries, future trends, international business law, suitability for the goods considering different types of ships and suitability for the goods considering different types of transportation.

According to the above standards, two export management companies are suggested as the following:

- One is Vogen Industry Company. The company has three kinds of business modes, agency, service and self-operation. The company familiar handles the import and export business of more than ten coastal and inland ports in China and their business spreads over 80 countries over the world. In the export agency business, they supply the entire-process service, including signing the contracts with domestic and oversea customers, auditing letter of credit, chartering a vessel, booking shipping space, commercial inspection for export, applying to customs for export, checking negotiating documents, presenting bill of lading and negotiating, collecting and cancellation after verification. Except the high evaluation from the customers, another reason to suggest this company is that the risk by choosing a large company is lower. For this kind of big company, they can get more profit from their self-operation business so there is no need for them to charge extra or unreasonable handling charge which may destroy their reputation and future business. The general handling fee of Vogen Industry for textile export is 1%-1, 2% of the customs declaring value. Customer needs to have face-to-face discussion about the business details and requirements to ensure the concrete price. (Vogen Industry. <http://www.vogen.cn/index.asp>)
- Another suggested company is Hao Wei Company which is a professional service company. They provide purchasing service,

shipping service, export and import service and insurance service. Hao Wei has cooperation with many ship agencies and provides more flexible discount of ocean freight. It is one of the top 100 service companies in Shanghai and evaluated as one of the A-level credit companies in 2008. Haowei also can supply the whole export service includes getting orders from foreign customers. Except this basic service, they provide consulting service about export risk, credit of foreign customers, international debt, translation and customs related documents examine. For the basic export service, the handling charge for textile export is 1% of the customs declaring value. And customer needs to have face-to-face discussion about the business details and requirements to ensure the concrete price. (Howwell International Company. <http://www.ihowell.com.cn/about.html>)

Both of these two company provide the entire export service, that means Hai Xu still can designate their sales department to the export management company if they want. According to the information provided by Haowei and Vogen Industry, we assume the handling charge is 1,2%. For the ocean freight and insurance cost, we cannot know the detailed price offered by these two export management company so we assume they keep the same. Then the cost for the same batch of clothes can be presented as the following:

Handling charge is $A = (493000+132100+340+ (660+13570) * 10) * 1,2\% = 9213$ RMB

Total cost of this batch of export products = $G + \text{Quota} + A + F1 + (I + F) * \text{Rate} - V = 493000 + 132100 + 9213 + 340 + (660 + 13570) * 10 - 72700 = 704250$ RMB

As you can see the save is $715000 - 704250 = 10750$ RMB for this batch of products. Compared with cooperating with the old export management company, seeking a new export management company may have some troubles and unfamiliarity in the beginning, especially in the orders receiving. Since Hai Xu has been cooperated many years with the current export management company, the current export management company is very responsible for competing orders for Hai Xu, but if applying a new export

management company, the company cannot sure there are sufficient orders. As we know outsourcing of sales office is not an advisable idea, so it is better to own the sales office by Hai Xu itself. If so, the handling charge can be cheaper as well. Here, a very useful website for competing orders is recommended: <http://win.mofcom.gov.cn/qgqs/index.asp>

This website is hosted by the Ministry of Commerce of The People's Republic of China. There is information about import and export manufacturers and companies on the website. For the manufacturer, they can enroll and post their pictures of products and leave contact methods there. For the foreign customers, they can easily find what they want by selecting the products' type. The website also provides information about position hiring and applying. Moreover, the website gives companies the newest world trade news, such as increase of raw materials' price, exchange rate and trade fairs.

5.3 Direct Exporting

5.3.1 Model of Direct Exporting

The business transaction will be simple and efficient if direct exporting applied in Hai Xu, the business transaction of direct exporting in Hai Xu can be expressed as the following pictures:

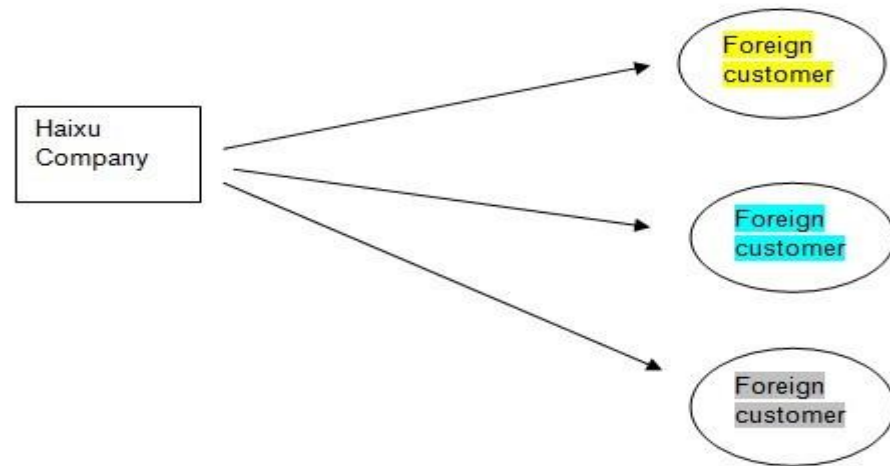


FIGURE 8. Assumption of basic trade model (direct exporting) for Hai Xu

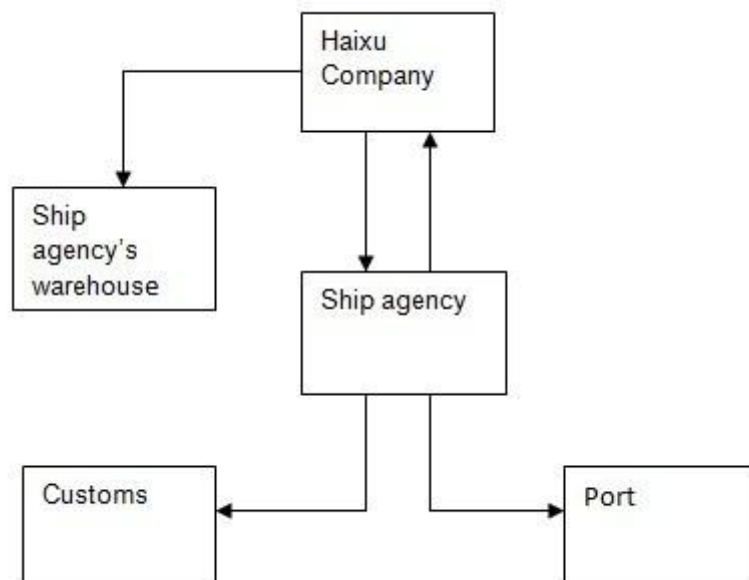


FIGURE 9. Assumption of delivery process (direct exporting) for Hai Xu

In direct exporting, Hai Xu can have greater degree of control all respects of the transaction, for example, they can contact their customers directly and if something is not working they can know who to contact. Getting direct feedback from customers is another advantage as well.

The second picture indicates that the transaction is simplified without the export management company, the process can be described as: (1) Hai Xu informs the ship agency about the type of products, amount, arrival time and port of destination and sends the customs related documents to the ship agency. (2) Ship agency finds the best time, rate and advises Hai Xu of suggested solution. (3) Hai Xu agrees on suggested solution transports their cargo to ship agency's warehouse. (4) Ship agency loads cargo into container and deals with customs clearance. (5) Exportation is permitted by Customs. (6) Ship agency informs Hai Xu about customs permission and prepares to move container to port. (7) Ship agency moves container to port and waits for load on board.

5.3.2 Barriers of Direct Exporting

In order to begin direct exporting, the start point for Hai Xu is to apply the qualification of self-managed import and export. According to the Requirements for Enterprises Applying for the Qualification to Engage in Foreign Trade of Department of Commerce, Hubei Province, enterprises should have been established for at least one year and registered with the administrative department for industry and commerce. Second, the registered capital shall not be less than 3 million RMB for those in the middle or western regions of China. Third, the enterprise must have gone through tax registration, paid taxes according to law and gone through the annual tax inspection according to the relevant provisions of the state. Finally, the legal representative or the person in charge of the enterprise was not the legal representative or the person in charge of an enterprise that was revoked of their license for engaging in foreign trade in the past three years.

Hai Xu has established more than ten years and registered with 3 million RMB at that time. It gone through the annual tax inspection by the Hubei Administration of Taxation and it never applies an export license before so there is no record about revoke of license. Thus, Hai Xu totally meets the

Requirements for Enterprises Applying for the Qualification to Engage. The following picture is the application form of self-export license:

进出口经营资格申请表

申请企业: _____ 申请日期: 年 月 日
 (盖章) 电话: _____
 传真: _____

申请事项	A类(按申请事项类别填报)		申请事项类别:
企业名称(中文)			A. 外贸流通公司进出口经营资格
企业名称(英文)			B. 国有外贸企业改制成立外贸流通公司
企业地址(中文)			C. 外贸流通公司子公司进出口经营资格
企业地址(英文)			D. 境外加工贸易企业进出口经营资格
注册资本	成立时间		E. 外经公司(设计院)进出口经营资格
上年出口额	海关注册号		F. 生产企业成立进出口公司
组织机构代码	E-mail:		G. 私营企业进出口经营资格
	邮编:		
按申请事项类别,专项申报材料(已附的,打√):			
1. 经工商部门签章的营业执照副本(盖有年审章)复印件(除新成立公司的以外,均提供)			
2. 工商部门出具的公司名称预先核准通知书复印件(新成立公司的提供)			
3. 工商部门或审计(会计)部门确认的出资比例及出资者所有制性质(有限责任公司或股份公司及新成立公司的提供,属D类,G类,企业法人营业执照已明确属公有制的企业可不提供)			
4. 国有外贸企业改制批准文件复印件(属B类的提供)			
5. 原公司或母公司的进出口经营权批件复印件,经年审的进出口企业资格证书复印件,经工商部门签章的营业执照副本(盖有年审章)复印件(属B类、C类、F类的提供)			
6. 外经贸部颁布的《境外带料加工装配企业批准证书》复印件(属D类的提供)			
7. 税务部门确认的依法纳税证明、统计或税务等部门确认的销售收入证明(属G类的提供)			
8. 外贸企业确认的近两年出口供货证明(属G类生产企业的提供)			
9. 省级以上科技部门颁发的《高新技术企业认定证书》复印件(属G类高新技术企业的提供)			
10. 自产产品目录(属G类的提供)			
地方县外经贸主管部门或有关主管部门审核盖章(不再另附报告,授权发证机关可直接受理的免此项)		授权发证机关或中央企业审核盖章:	
年 月 日		年 月 日	

FIGURE 10. Application form of self-managed import and export

The next challenge Hai Xu will face by direct exporting is the human resource problem. In Hai Xu there are no professional employees who are responsible for dealing with customs related procedures and export transactions. Why it is difficult for Hai Xu to acquire talented employees? There are two main factors. One is that customs declarers prefer to work in the companies such as export management companies or big manufacturing companies. For a small manufacturing company which is located inland, it seems there is less space of development. That means, Hai Xu needs to provide more benefit to attracting talents in the beginning of their direct exporting. In addition,

Websites should be fully utilized in this kind of situation and they can be really useful, such as <http://www.zhaopin.com/>, <http://www.51job.com/>. Additionally, school recruitment, media advertisement, on site recruitment, recruitment notice, recruitment by professional companies or informal recruitment methods, such as chat program and forum may also contribute to the human resource problem here. Except all the above methods, establish a sales office in coastal area is a way to attract talents as well.

Another barrier Hai Xu will face if doing direct exporting is the complex customs related documents and shipping documents. Here several common and important documents are shown as the following figure:

- Insurance. Transport and credit insurance are significantly important for export business because long distance and complex transactions increase the risks. Nowadays there are many kinds of transportation insurance in the Chinese market, it is important to select a reliable insurance company and a suitable type of insurance.
- Packing list. Packing List can be represented as “P/L”, it includes the detailed package related information in the letter of credit for the purpose of customs inspection and checking when the goods arrive the port of destination. The example is shown as the following:

装 箱 单					
<u>PACKING LIST</u>					
客 户 To Messrs: _____			日期 Date: _____		
船 名 Shipped by: _____		由 From	至 To	合同号 Contract No.: _____	
箱号 Ctn.No.	货物名称及规格 Description	总箱数 Ge.Crate	总数量 Ge. Quantity	总毛重 G.W.:	总净重 N.W.:

FIGURE11. Example of packing list

- Verification Sheet. Verification Sheet used to summarize the related information when applying customs, such as port of destination, name of products and value. The main function of it is to get tariff refund as a certification. The following picture is an example:

The image shows a document titled "出口收汇核销单" (Export Collection and Verification Sheet) with multiple sections for data entry and stamps. It includes fields for company name, unit code, and various administrative markings.

出口收汇核销单 存根		出口收汇核销单 副联		出口收汇核销单 出口退税专用	
编号: 73848351	出口单位: 深圳市阳峰实业有限公司	编号: 73848351	出口单位: 深圳市阳峰实业有限公司	编号: 73848351	出口单位: 深圳市阳峰实业有限公司
出口单位: 深圳市阳峰实业有限公司	单位代码: 75762220-7	出口单位: 深圳市阳峰实业有限公司	单位代码: 75762220-7	出口单位: 深圳市阳峰实业有限公司	单位代码: 75762220-7
出口币种总价	收汇方式	预计收款日期	报关日期	备注	海关签章
此单报关有效期截止到			外汇局签章	报关单编号	外汇局签章
			年 月 日(盖章)	年 月 日(盖章)	年 月 日(盖章)

FIGURE 12. Example of varification sheet

- Customs Export Declaration Form. Customs Declaration Form is the document used to present the goods information according to provisions of customs for import and export of goods format, it can be filled by the owner of the goods or a person acting of the goods. And it has electrical form and written form. The following picture is one example of Customs Declaration Form:

中华人民共和国海关出口货物报关单

预录入编号: _____ 海关编号: _____

出口口岸	备案号	出口日期	申报日期
经营单位	运输方式	运输工具名称	提运单号
发货单位	贸易方式	征免性质	结汇方式
许可证号	运抵国(地区)	指运港	境内货源地
批准文号	成交方式 运费	保费	杂费
合同协议号	件数 包装种类	毛重(公斤)	净重(公斤)
集装箱号	随附单据		生产厂家
标记号码及备注			
项号 商品编号 商品名称、规格型号 数量及单位 最终目的地(地区) 单价 总价 币制 征免			
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) 审单 审单
			征税 统计
			查验 放行

FIGURE 13. Example of customs export declaration form

5.3.3 Selection of Ship Agency and Cost Comparison

Direct exporting requires Hai Xu to select and deal with the transactions with a ship agency by itself. As a newcomer in this field, first Hai Xu needs to be familiar with some basic knowledge about containers.

In the international sea transportation, clothes products are delivered by general purpose containers; this kind of container is always represents as “GP”

in the international shipping. On the websites of shippers, the ocean freight is presented as three numbers with the mark “/” between each of the numbers, such as “2200/4300/4400”. These three numbers separately stand for the ocean freight for carrying by Twenty-Foot GP containers, Forty-Foot GP containers and Forty-Foot high cubic containers. And the units followed the numbers are dollars. The following picture is an example of 20’ GP containers and the picture following it shows the information about their sizes and weights:



FIGURE 14. 20’GP container

General Purpose	20’ GP Container	40’ GP Container	40’ Hi-Cube Container
Specifications	8x8’6” Standard	8x8’6” Standard	8x9’6” Hi- Cube
Inside Cubic	32.8 m ³	67.2 m ³	75.9 m ³
Capacity	(1,158 cu.ft)	(2,372 cu.ft)	<u>(2,679 cu.ft)</u>
Cargo Capacity	21,640 kg (47,716 lbs.)	26,500 kg (58,433 lbs.)	26,400 kg (58,058 lbs.)
Tare Weight	2,360 kgs (5,200lbs)	3,980 kgs (8,776 lbs)	4150 kgs (9,150 lbs)
Internal Measurements			
Length	5.90 m (19.35 ft)	12.01 m (39.39 ft)	12.01 m (39.39 ft)
Width	2.35 m (7.71 ft)	2.35 m (7.71 ft)	2.35 m (7.71 ft)
Height	2.38 m (7.80 ft)	2.38 m (7.80 ft)	2.69 m (8.82 ft)
Door Size			
Height	2.28 m (7.48 ft)	2.28 m (7.48 ft)	2.58 m (8.46 ft)
Width	2.33 m (7.64 ft)	2.33 m (7.64 ft)	2.35 m (7.71 ft)

FIGURE 15. Measurements of 20’GP container, 40’GP container and 40’ Hi-Cube container

The inside cubic and cargo capacity are shown in the above figure. The number of containers needed can be calculated by volume or weight. Since

clothes are light products, according to the international standard it should be calculated by volume. When the shipper arranges the loading and shipping issue, the concept of FCL and LCL are needed to be mentioned here. FCL stands for Full Container Load, which means the containers are fully filled while LCL stands for Less Container Load, which a shipment in the situation that the goods does not completely fill the container, in this situation, the container can be filled by combining. If the containers needed are just or very close to Twenty-Foot or Forty-Foot, FCL can be applied here and the cost equals the ocean freight for one container \times numbers of containers. However, in most situations, the containers needed cannot be an integer or the products can not fill a whole container, here the cost is more expensive and complex. Thus, some carriers will calculate the containers needed and arrange products by themselves before assigning the work to shippers in order to save money.

The rates of full container load and the transit time in several different ship agencies were compared while transport the containers from Yangshan Port (in Shanghai China) to Gdansk port (in Poland). For Maersk, when transporting dry containers from the location Shanghai, 31, CN to Gdansk, PL, the transit time is 34 days and the rate is 2200/4300/4400. The validity time for this information was by the 15th May and there is no stop during the shipping. Shanghai Harvest International Logistics Co., Ltd always provides cheaper price compared with other shippers, the rate they provide from Shanghai to Gdansk is 1805/3110/3310 and the transit time is 30 days without stop as well. The validity time of this information was by the 2nd May. Shanghai Harvest International Logistics Ltd is an international freight forwarder with Class-A license, specializing in import and export container transportation service. Since the establishment, Harvest has developed a long-time cooperation and partnership with some major liners and their sailing covers mostly to main areas of the world such as New Zealand, South Africa, South America, Australia, Bay of Bengal, Korea, Taiwan, Japan, Southeast Asia, Red Sea, North America, Europe and so on. (Shanghai Harvest Logistics CO., Ltd. <http://harvestlog.member.shippingchina.com/index/index.html>)

Another famous and high valued ship agency is Jincheng International Logistics Cooperation. Jincheng International Logistics Cooperation is approved by the ministry of the Chinese commerce department and it mainly provides international cargo transportation service. Their transport lines cover Europe, the Mediterranean, Middle East and Southeast Asia. The rate from Yangshan Port to Gdansk port is 1710/3120/3270 and the transit time is 32 days without stop. This information was valid by the 4th May.

In addition, in my research a helpful website was discovered.

<http://www.shippingchina.com/>. The website contains the rates and related shipping information of all the enrolled shippers. You can search by freight, directory, cargo, shipping schedule or liner schedule to find the most proper shipper and freight by comparing with the quotations from different ship agencies. There is also information about the change of ocean freight over the last several months, on-line consultants of transportation insurance, customs guide, requirements for carriage of dangerous cargoes, rating of ship agencies and so on.

In direct exporting, the largest saving part of the total expense is the handling charge. As we calculated before, the current handling charge in Hai Xu equals $(G+Quota+F1+ (I+F) \times Rate) \times 2,6\%$, that is 19961 RMB. Here it is not possible to directly compare the ocean freight of this batch of products by direct exporting because the ocean freight in the above calculation is from last year and the detailed ocean freight and related shipping information at that time is not recorded in Hai Xu's system. The export management company may provide cheaper ocean freight to carriers since most of the export management companies have long-time cooperation with ship agencies, however, compared with the big amount of handling charge, this discount has a small impact on the total cost.

5.3.4 How to Attract Foreign Customers

Without the assistance of an export management company, Hai Xu should seek a way to keep old customers and attract new ones. The judicious may is to take the initiative in seeking new customers instead of waiting.

First, the most common method to seek new customers is through large searching engines. It is not always good method to search by a fixed websites, but try to search from different websites because the same key word may bring different answers by different searching engines. In addition, countries often own their own national searching engines, for instance, in China, we have Baidu. Search as much as possible by some engines of English-speaking countries. And pay attention to the key world as well because you can get plenty of benefits in your later business by acquainting English sayings of these key words.

Second, search through the industry's trade websites. Almost every industry has its industry website. On this kind of websites, you can see the list of members, a lot of related information and associated links. In addition, yellow pages and directory of the target country can also be utilized.

Third, check the target country's telephone information desk. You can ask for some companies telephone numbers and direct introduce and sell your products. Furthermore, try to take part in the exhibitions in the target country. This is one of the most effective ways to introduce your company and your product. If the company gets an opportunity, it is important to serve and answer the customers' questions in a friendly way all the time because most consultants feel tired and bored after the first day, at this moment, if you can still keep smiling and show your patience, at least you will leave a deep impression.

Besides the above methods, Hai Xu can enroll on some B2B websites. B2B stands for Business-to Business, which means the communication and transaction between companies. On the B2B websites, sellers can show the information of their products and leave their contact information. Apart from

the above methods which contribute to finding customers, the following tips should be highly noticed:

- Immediately answer your customers when receiving inquiries in order to show your efficiency and respect. Sometimes you miss your customers when you carefully consider how to reply. Thus, sometimes it is necessary to communicate over mobile phones.
- Do not bother if your customers say they would like to do the factory inspection because only big customers require factory inspection.
- Do not over-state your company and performance.
- Ensure you complete what you promised and inform your customers in advance what you may not finish. Remember honesty is very important, not only for the company as well as for the personnel. So sometimes even if you miss the orders, at least you keep the reputation.
- Be skillful in quotations. Customers are always more professional than the seller and there is no big quality disparity in textile industry. Hai Xu should provide a proper quotation based on standard calculation.

5.4 Result Analysis and Recommendation

It is necessary to consider two factors when determining whether direct exporting or indirect exporting should be applied in Hai Xu. First, how big is the current company? In other words, the question is if Hai Xu has the ability and space of growth to control the export process by themselves, because we cannot deny that "people power" is a main strength in completing all the business transactions and affecting the development of the company. In Hai Xu, there are 39 officers among all the employees, in a small-size export management company, the number of employees is sometimes even smaller than 39. In most export management companies, several employees are responsible for orders from one country, so the responsibility and work can be clear and the managers know who to contact when something goes wrong. Additionally, Hai Xu meet the requirements for applying an export license which was mentioned before. Thus the main problems here still come from the

professional employees who can be responsible for customs procedures and shipping issues.

The second question needs to be considered is how big does Hai Xu wants to be? According to the third lot of credit rating of the Chinese textile export industry, all the top-ten organizations are doing direct exporting since direct exporting involves greater control and market penetration compared with indirect exporting. In Hai Xu's vision, it aims to provide world-level products and service to their customers in order to stand out in this industry and simultaneously expand their business. By indirect exporting, the aim may never be realized because in indirect exporting sometimes you even do not know who your customers are and your customers do not know who you are. The export management company serves as a bridge; however, it is an obstacle for Hai Xu and its customers as well. With this obstacle, it will be very hard for Hai Xu to achieve its objectives.

5.4.1 Results

Having realized the wastes and inefficiency in the current distribution channels in Hai Xu, another two possible distribution models were discovered: the distribution through indirect exporting by other cheaper export management companies and the distribution through direct exporting. The following figure illustrates the channels of indirect exporting:



FIGURE 16. Communication and transactions in indirect exporting

The arrows stand for the communication and transactions in Hai Xu's business. In indirect exporting, it is not possible for Hai Xu to contact its customers directly, time wastes in the communication and transactions among Hai Xu and the export management company, the export management

company and foreign customers. Another possible distribution is the model of direct exporting. It is shown in the following figure:

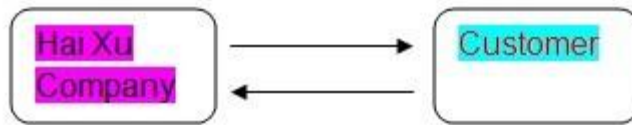


FIGURE 17. Communication and transactions in direct exporting

In direct exporting, Hai Xu contacts their customers and gets feedback from customers directly. The delivery process can be simplified from the procedures shown in Figure 18 to the procedures shown in Figure 19:

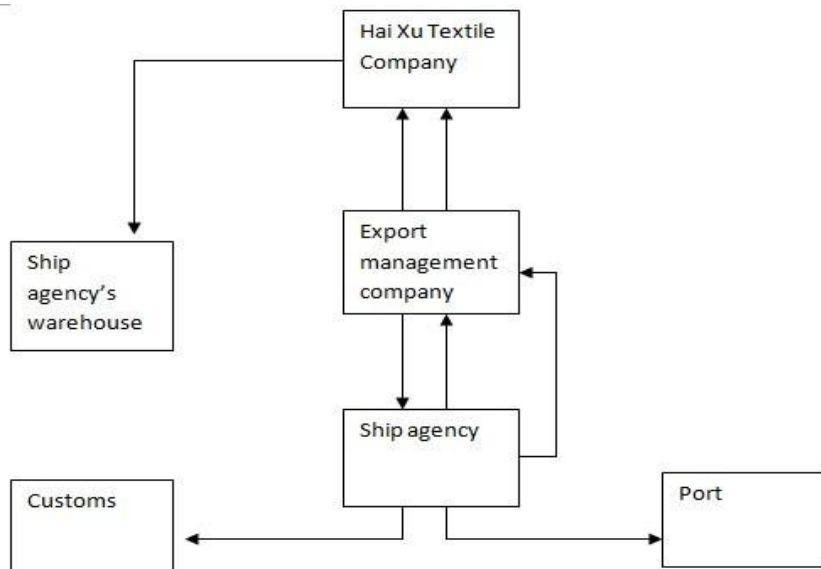


FIGURE 18. Current distribution model in Hai Xu (indirect exporting)

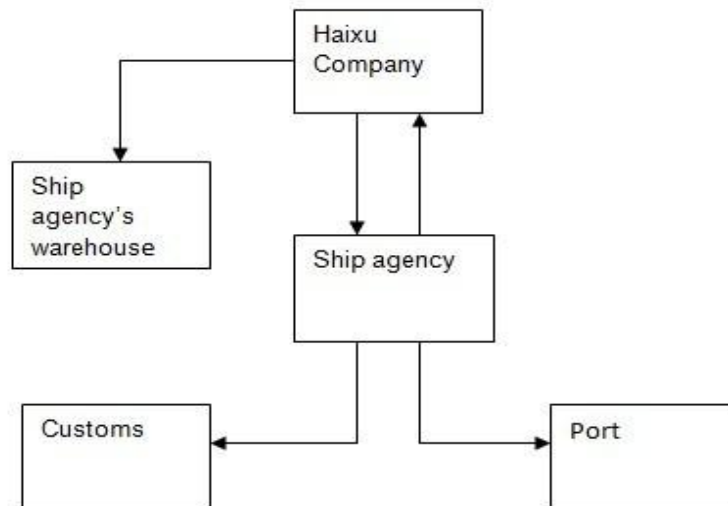


FIGURE 19. Assumption of distribution model (direct exporting) in Hai Xu

In direct exporting, after inspection process Hai Xu informs directly the ship agency about the type of products, amount of products, arrival time and port of destination and sends the customs related documents to the ship agency. Then the ship agency finds the best time, rate and directly advises Hai Xu instead of the export management company. When the exportation is permitted by Customs, ship agency informs Hai Xu about customs permission and prepares to move container to port.

5.4.2 Comparison

In the indirect exporting, two export management companies were suggested. Both of these two companies provide the entire export service that means Hai Xu still can designate their sales department to the export management company if they want. However, as we know outsourcing of sales office is not an advisable idea, so it is better to own the sales office by Hai Xu itself. Here comparisons among the current distribution model and the other two suggested distribution models are revealed in the following two tables:

	Cost	Efficiency	Involvement and risk
Current model	The handling charge is 2,6% of the customs declaring value	Repeated confirmation, communication and transactions exist.	Minimal involvement and minimal risk.
Indirect by suggested export management companies and self-managed sales department.	The handling charge is 1%	Repeated confirmation, communication and transactions exist.	Low involvement and low risk.
Direct exporting	No handling charge, but the ocean freight may be a little higher.	No repeated confirmation, communication and transactions.	Greater control and involvement in the whole export business. Higher risk.

FIGURE 20. Comparison of different distribution channels. Table (1)

	Challenge	Flexibility	Opportunity of development
Current model(indirect exporting)	Minimal challenge	Totally dependent on the export management company.	Minimal
Indirect by suggested export management companies and self-managed sales department	Low challenge	Highly dependent on the export management company.	Very small
Direct exporting	Greater challenges in funds, energy, recruitment and responsibility.	No dependence and high flexibility.	Great

FIGURE 21. Comparison of different distribution channels. Table (2)

Indirect exporting has brought some benefits for Hai Xu over the years, for instance, it gives Hai Xu an almost risk-free way to begin, requires minimal involvement in the export process and assigns the human resource and order competition trouble to the export management company. Nevertheless, they

lose control over their foreign sales and the profits are low. In addition, Hai Xu loses the opportunity to get direct feedback from the customers, especially while competing with other similar products which are directly exported by competitors.

We can conclude from the above tables that all the weaknesses in indirect exporting can be improved by direct exporting. Since the eliminating of intermediaries, the potential profits are greater and Hai Xu can have a greater degree of control over all aspects of the business. On the other side, business trips are much more effective and efficient and foreign customers will feel more secure because they meet directly with each other.

5.4.3 Suggested Distribution Model

From history, all the top textile export companies have been trading through direct exporting and some of them have also experience a periods of indirect exporting at the beginning of their businesses. Hai Xu has experienced more than ten years indirect exporting and during this period they have learnt the related export transactions to a certain extent. This is time to have the transition and accept the challenge of trying direct exporting.

We cannot deny that it is a great challenge for Hai Xu to involving from indirect exporting to direct exporting. It takes time, money, energy and the business demand higher responsibility and flexibility from every field of Hai Xu. Moreover, the risk is greater because the company needs to account for whatever happens. However, it is worth to try since direct exporting contributes to the development of the company in the long term view and all the benefits shown in above comparison will give the company opportunity to achieve its goals in the future business.

6. CONCLUSION

Hai Xu Textile Company is a Chinese company whose core business is to manufacture textile products which are exported to foreign countries. Their products are textile clothing goods, such as T-shirt, pajamas, and some other kinds of clothes which are mainly made from cotton. Nowadays 75% of their products have been exported to Europe. The main problem in Hai Xu Textile Company is their low profit and inefficiency which are mainly caused by their distribution channels.

This research aims to develop distribution channels for Hai Xu Textile Company by choosing a new distribution model and save costs through the new distribution channel and assist the company to survive during the textile industry innovation period.

6.1 Key Findings of the Study

In the research, analysis of the current distribution model in Hai Xu and the reasons for adopting this distribution model were discussed. An overview of the current Chinese textile export industry and a SWOT analysis were provided as well.

In the model of indirect exporting, according to the standard of the handling charge of export management companies, two export management companies were suggested in the consideration of their range of service, quality of service and charge. In the direct exporting model, three ship agencies were recommended in the consideration of their range of service, quality of service, charge and efficiency and some methods in recruitment and order competition were provided. Some import documents in direct exporting were discussed as well.

In addition, with the calculation and analysis of the related data about a batch of exported products in Hai Xu, comparison among three different models of distribution channels were shown, which included the comparisons in cost, efficiency, challenge, risk, involvement, flexibility and opportunity of company's development. According to all the collected information, data and analysis the suggested distribution model was suggested.

6.2 Future Research Aspects

For the future research about the topic, there is still a lot of work that needs to be done. The barrier caused by a geographic factor disrupted the original plan of this research. Questionnaires of both direct exporting and indirect exporting for Chinese textile companies were prepared and sent to 30 Chinese textile companies, but only 2 replies were received from them in about three weeks. Thus, the survey work cannot be completed as planned. The reason for the failed survey firstly is due to the wrong contact information on their websites. 6 out of the 30 emails were delivered unsuccessfully because of the nonexistent email addresses. Some companies replied by automatically replying system, after that there were no further reply.

During my work of searching the contact information of these textile export companies, it was quite hard to find contact information or their websites for small and middle companies in this industry; it seems that telephone is the most used contact methods. This is one of the main factors that prevent the development of the Chinese textile export; it may bring trouble and inconvenience to foreign customers when they try to consult or communicate through telephone. Chinese textile companies should get used to checking their mail boxes every day and reply to customers as soon as possible, especially the small and middle-size companies in this industry.

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APPENDICES:

English version of FIGURE 10. Application form of self-managed import and export:

Application	Type A		Types of application
Company name(in Chinese)			<p>A. Foreign trade company import and export business qualification.</p> <p>B. The state-owned enterprise reform to foreign trade company.</p> <p>C. Import and export trading company subsidiary business qualification.</p> <p>D. Overseas processing trade enterprises import and export business qualification.</p> <p>E. Foreign companies (design) import and export business qualification.</p> <p>F. Manufacturers established import and export corporation.</p> <p>G. Private enterprises import and export business qualification.</p>
Company name(in English)			
Company address(in Chinese)			
Company address(in English)			
Registered capital		Time of establishment	
Export amount of last year		Registered customs code	
Company code		E-mail	
		Post code	
<p>Required documents according different application types:</p> <ol style="list-style-type: none"> 1. Business license copy signature by commerce department. 2. Copy of approval of company's name. 3. Confirmation of the investment proportion and investor ownership by audit department. 4. Reform of state-owned foreign trade enterprise approved copy of the document (which is the provision of Class B) 5. Copy of the import and export right of original company or parent company. 6. Copy of the external process and assemble enterprise approval certificate. 7. Confirmation of paid tax, statistics and revenue by tax authorities. 8. Confirmation of supply in the latest two years. 9. Copy of high-tech enterprise certificate. (which is the provision of high-tech enterprise class G) 10. Own products catalog (G class are available) 			
Stamp by manager of local commerce department:			Stamp by license-issuing authority:

