

Feasibility and profitability of chain integration by NCPAK on flower sleeves products in European market



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List of Abbreviations

APME	Association of Plastics Manufacturers in Europe
BOPP	Bi-axially Oriented Polypropylene
B/L	Bill of Lading
CHN	China
CIF	Cost, Insurance and Freight
CPP	Casting Polypropylene
CRM	Customer Relationship Management
DN	Denmark
ERP	Enterprise Resource Planning
ETU	Electronic Tag Unit
EU	European Union
FCL	Full Container Load
FDI	Foreign Direct Investment
GER	Germany
ISO	International Organization for Standardization
LCL	Less Container Load
L/C	Letter of Credit
NCpak	Sun Hing Plastic Bag Company
NL	the Netherlands
NRK	the Dutch Rubber and Plastics Federation
OEM	Original Equipment Manufacturer
OPP	Oriented Polypropylene
PE	Polyethylene
PP	Polypropylene
RMB	Chinese Yuan
SWOT	Strength, Weakness, Opportunity, Threaten
T/T	Telephone transfer
UK	United Kingdom
US	United States
VGB	Association for Wholesalers in Florist Products

Abstract

In this report, the author describes that the EU flower sleeve wholesalers are the chain leader of the flower sleeve supply chain from China to EU market. Their strategy changes can easily put NCpak in a hard situation and even go bankrupt. In the case of NCpak, being highly depending on EU wholesalers, NCpak's sale has dramatically decreased because of EU wholesalers have chosen its competitor instead of NCpak. To find a feasible and profitable solution is a priority.

Through desk research on relevant theories (about chain integrations, supply chain management and case study) and field investigation and analysis on issues like the Chinese flower sleeves producing factories' characters, EU market competition, client trends and characteristics, logistic support, cost price and shared margins, so as to find out the feasibility and profitability of developing an EU sales agency to solve the problem.

The author's findings are: firstly, most of these Chinese flower sleeves producing factories have the similarities like cheap labor, high raw material cost, similar producing technology from Taiwan and mainland; however, these similarities don't provide NCpak with unique/core competence to compete others. As a result, most of these companies compete with each other by lower down the product price. Secondly, most of the EU wholesalers outsource their products from China; furthermore, based on client database and EU logistics support, the wholesalers set the product price and share big gross margins. Thirdly, the EU wholesalers and retailers compete with each other and there is absence of partnership and strategic alliance. Fourthly, there are largest numbers of the final EU clients and most of their orders are smaller ones, while less than 1% (the big and middle size client) of client occupied around 50% of the total EU market consumption. The author concluded that it is feasible and profitable for NCpak to develop an EU sales agency based on the select specific target client segment, create a client database and outsourcing the EU transport services.

Key words: Case study, BOPP flower sleeve, supply chain management, chain integration, EU sales agency, logistics, EU competition, shared margins, five force analysis, SWOT analysis, etc.

1. INTRODUCTION

Since the open door policy, Chinese factories started to connect to the world market. As Chinese economy constantly growing, products and materials that made in China can be found almost every corner of the world. Because of main strength of cheap labor, many Chinese factories can supply their goods with a competitive price in the world market, which also makes China to become the biggest global sourcing countries.

As one of the main raw packing materials, BOPP (bi-axially oriented polypropylene) film is widely used in many areas like cutting flower packaging, pot plant packaging, vegetable packaging and other agricultural and food packaging areas. For flowers and pot plants packaging, flower sleeves which made from BOPP film is the most common one, next to flower sleeves made of CPP.

Chinese flower sleeves producing factories are the main suppliers for the world flower packaging market. They supply finished products with various flower sleeves. Europe and North American are two of the biggest consumption markets for it. The world market covers at present approximately 5 billions flower sleeves, about which approximately 2 billions are standard sleeves, while the Europe market has the capacity of 3 billions flower sleeves. In this over capacity, prices tend to decrease, and the least competitive companies will cease activities.

1.1 General information about NCpak

NCpak, with full name of Sun Hing Plastic Bag Company, is a Hong Kong enterprise based on Shenzhen City, Guangdong Province of China. With an annual turnover of more than 35 million Euros, the company employs over 500 people and has been founded over ten years ago. It has awarded ISO 9001 for high quality and excellent factory management.

With more than two hundred machines and the advanced quality control system, NCpak is able to supply its customers the superior product with a competitive price. NCpak specializes in various plastic bag production and flower package production. The flower packaging products range from Transparent Sheets, Single Rose Flower Sleeves, Seasonal Flower Sleeves, Printed Straight Top Sleeves, Printed Scalloped Top Sleeves, and Metallic Flower Sleeves to Clear Sleeves. They are all made of PP, PE and BOPP materials.

BOPP film is a strong and flexible packaging material, highly transparent and glossy, which makes it suitable for producing “V” or “Y” type sleeves that can be used as packaging material for cut flowers and potted plants. NCpak’s film takes an excellent

printed image and they can offer the highest quality of printing in up to 8 colors on both sides. All their flower sleeves are made exclusively to customer specification, including dimensions, thickness, and micro and macro perforation. Likewise, they also offer suitable sleeves for machine packing of cut flowers.

In the last decade, NCpak only worked as one of the outsourcing factories that producing flower sleeves for European packaging wholesalers. These companies mainly come from countries like the Netherlands and Denmark, and also America and Canada.

The principle of its production in general has the following steps: firstly, receive the customer's design or samples; secondly, their designer makes it possible to produce products according to customer's feedback and suggestions; thirdly, factory begins to produce custom-made products; last but not least, NCpak will collect payment and delivery to Europe importers or wholesalers according to contract. Actually, this principle functions well three years ago, but nowadays, NCpak is facing problem of being replaced by its competitors and it has to find a good strategic solution.

1.2 Problem statement

For the flower sleeves supply industry, it is obvious that Chinese factories only play a producer role in the supply chain. The export of flower sleeves from NCpak highly depends on the European importers and wholesalers because of historic reason (NCpak has good relationship with few EU wholesalers since it was found, and it receives stable orders from them every year). However, in recent years, the main strategy of these companies is focusing on low purchasing price. Moreover, there is an increasing number of flower sleeves producing factories in China. In case the European importers stop purchasing from NCpak and choose another lower price supplier, then, NCpak will face a tough situation or even go bankrupt.

Actually, NCpak already felt the threat which has been proved by their declining sales figures. NCpak also felt heavy pressures because of increasing price of BOPP film (raw material), which is result from high oil price and imbalance between supply and demand in PP and in BOPP (the demand of PP increase quick than the supply). All these problems together add big pressure to NCpak, and to choose the right strategy to survive is really a priority.

1.4 Objective

To develop a new supply chain to access EU market better.

1.5 Main research question

Is it the feasible and profitable to develop a new chain from NCpak to EU market that is fully owned by NCpak?

1.5.1 Sub-questions

- 1.1 Who are the chain actors and how do they function in the supply chain?
- 1.2 How is the logistic management organized usually?
- 1.3 What are the challenges (constraints, risks, etc.) in this chain?
- 1.4 Who are the chain supporters and influencers and how they are functioning?
- 1.5 How are costs and margins shared in the chain?
- 1.6 How much does it cost to develop an own sales agency in the Netherlands?
- 1.7 How much extra margin can be achieved if NCpak build its own sales agency in EU (located in the Netherlands)?
- 1.8 What should be the functions and activities of the sales agency?

1.6 Significance of the study

This case study report focuses on NCpak, by exploring the feasibility and profitability of chain integration that the company will enjoy by setting up its own sales agency within the EU to access the market. It provides valuable information for other China based flower sleeves export companies that interested in similar issues to benefit from this report. This report further reveals the existence of problems within the flower sleeves supply chain from China to the EU market. It indicates how to analysis and clarify a producer's problem with supply chain issues and it makes recommendations for an organization to become a chain leader.

2. METHODOLOGY

In order to make a good analysis on flower sleeves supply chain and plan the right strategy, besides desk study, case study is very necessary.

2.1 Desk study

Second data was collected by going through relevant documents to get more information by using journals, scientific books, PhD thesis, companies' profiles (especially from EU flower sleeves wholesalers) and proceeding from seminars, symposia, conferences that discussed about BOPP films, flower sleeves producing and trading, EU market consumptions.

Through reading literatures from Wageningen University library, the author not only reviewed on the concepts/theories on supply chain management, chain integration, market entry strategy, but also reviewed the analysis tools like five force analysis and SWOT analysis. Moreover, to fulfill the research objective, the author paid more attention to the EU flower sleeves market information and sector trends, chain integration and other relevant information about flower sleeves marketing, export and logistics from China to EU market.

2.2 Case study

This case study report focuses on NCpak, by exploring the feasibility and profitability of chain integration that the company will enjoy by setting up its own sales agency within the EU to access the market. Case study approach is appropriate because 'it is a research strategy, focusing on understanding the dynamics changes in the sector/company'. The evidence may be qualitative or quantitative information, or both. (Eisenhardt, 1989; Yin, 2003) Interviews are very useful to clarify the flower sleeves sector and its supply chain. It is helpful to figure out who is the current chain leader, and to understand how the business is going on and the reasons for that.

Necessary interviews and direct contacts were done with 2 Chinese factories (NCpak and Welpack), 1 Chinese export company (Xiamen Green import & export), 3 Dutch wholesalers (Van Dillewijn, Zwapak, Broekhof), 1 Danish wholesaler and 2 Danish retailers in the chain (Flora marketing APS and Horti Print A/S). Totally 18 managers and directors were interviewed by visiting or direct contact (Ref. annex 2 indicates the issues that discussed). And about 2.0 billions (2/3 of European market) of flower sleeves are covered.

Furthermore, through the interviews with EU wholesalers and one key informant (Former Managing Director of an EU wholesaler and retailer who has 15 years of experiences in this industry), the author found out the recommendations and implementations advice for NCpak.

For Dutch interviewees, the author visited and did the interview and observing in their companies. In order to avoid too much travel expenses (because of long distance) and time consuming, for the actors from China and Denmark, one of the main contact way was go through internet communication, by using MSN and Skype to have direct conversations or email contact.

To acquaint qualitative information, based on years of working experience, the best way is by exchanging valuable information during discussions with interviewees about attractive issues, such as profit, payment term, competitive price, strategic cooperation and so on. But to do it successfully, the interviewer must have sufficient knowledge and understands the entire flower sleeves industry so that to facilitate discussions.

How to reduce the cost and catch new business opportunities are the best issues to discuss and to have a good attractive point. The author's perspective started from NCpak, based on the time planning, the author collected the information about its annual turnover, financial capacity, production range and capacity, raw materials resources/substitute materials, production process, orders process flow, transport, payments term, lead time, business network, Chinese competitors, EU wholesaler, opinions about cooperation, support organizations, etc. Also, by talking with different managers (both inside and outside the company) on same issue the author can figure out the most accurate information, which are the valuable information that inspire the author when discuss with other players/actors.

With help of NCpak's export manager, the author joined in one export activity and traced the goods and information flow. Also collected first hand data (such as the production process of flower sleeves, prices, business network, export activities and costs, etc.) for analysis cost prices and shared margins of different actors.

3. LITERATURE REVIEW

In this chapter, the theories will consist of supply chain management, chain integration, market entry strategy. Also the review of analysis tools and indicated. Definitions of supply chain management and types of chain integration will be introduced to offer the reader a simple background. In addition, market entry strategy will be discussed which provides the reader about foreign direct investment (FDI) and its benefits, as well as set up oversea sales agency in the EU market. Analysis models of SWOT analysis and Porters' five forces will be identified and described. This chapter will also include the similarity and difference of between SWOT and five forces, which together can be used as a guide for successful strategic planning.

3.1 Supply Chain management

In general, a supply chain is defined as follows: "A supply chain is the network of facilities and activities that performs the functions of product development, procurement of material from vendors, the movement of materials between facilities, the manufacturing products, the distribution of finished goods to customers, and after-market support for sustainment (Mabert and Venkataramanan, 1998)."

The basic idea of the supply chain structure is to recognize the interdependency among supply chain members and thereby, improve its configuration and control based on factors such as integration of business processes, joint planning, physical and information flow management and channel leader. Cooper and Ellram (1993, 2000) suggested that the applicability of supply chain management lies someplace between fully integrated firms and independent companies operating in the chain/channel.

Nowadays, how to manage the supply chain is a central and important issue due to its impact on firms competing in international market. Managing the flow of goods from supply sources to the ultimate customer represents a major challenge for today's firms.

To assist firms, the concept of supply chain management has been adopted by many business leaders as an important way to assist in designing, planning, and controlling the network of facilities and tasks that comprise the many stages of the supply chain (Mabert and Venkataramanan, 1998).

3.2 Chain integration

In the dynamic changing world, rapid advances in communication technology and increasing regulatory freedom have changed the rules and nature of competition.

Enterprises are now competing globally and traditional barriers between industries are breaking down.

To cope with these changes and achieve superior performance, business leaders are moving towards new business paradigms that allow their companies to work more closely with their traditional and new business partners to adapt to the rapidly changing marketplace. This improved integration is the very essence of Supply Chain Management. Supply chain leaders are reconsidering the linkages, not only between functions within their own company, but with organizations up and down the supply chain. (Hermann Kraxenberger, July 2007) Integration of the supply chain and optimizing over the barriers of the individual companies require the partnership thinking.

3.3 Market entry strategy

Playing in the international market, a company's market entry options ranges from occasional exporting to expanding overall (production and marketing) into other countries. Main approaches are exporting, licensing, franchising, joint venture, trading companies and foreign direct investment. Foreign direct investment (FDI) involves making a long term commitment to marketing in a foreign nation through direct ownership of a foreign subsidiary or division. The greatest advantages of direct foreign investment are greater strategy control and enhanced market capacity. (Dibb, Simkin, Pride, Ferrell, 2001)

3.4 Analytical tools

SWOT analysis model

SWOT analysis is not a new idea in the business practice, and it is useful to analysis the company business environment and figure out the right strategies. This model originated from the Harvard Business School. SWOT analysis, which is by far the most popular, can serve a dual function: it can be used for both internal and external environment scanning (Kheng-Hor and Munro-Smith, 1999).

SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. SWOT consists of two main parts: the analysis of the internal situation (strengths and weaknesses) and the analysis of the external environment (opportunities and threats). It is important to note that the external environment should be described in a dynamic sense by considering the actual situations, namely existing threats, unexploited opportunities as well as probable trends. The internal situations should also be discussed on the basis of the existing factors. In other words, the SWOT analysis should not contain speculative, future weaknesses or strengths, but real, actual ones (Horn, Niemann et al., 1994).

From the whole process of strategic planning, SWOT analysis is the early but very important step in the area of strategic analysis, as Pashiardis (1996) commented, environmental scanning is essential for an effective planning. One needs to know the environment in which one operates before making any decisions about the organization, so as to be able to match one's capabilities with the environment in which the organization operates.

Porter's Five Forces Model

The Porter's Five Forces tool is a simple but powerful tool for understanding where power lies in a business situation. This is useful, because it helps the author to understand both the strength of the current competitive position, and the strength of a position that can be looking to move into.

Although the method is aimed at analyzing five forces, some definitions suggest that it overlaps with SWOT analysis, e.g. 'this method is used for identifying company's threats and opportunities under the effect of the following environments: suppliers' and clients' power, threat of substitutes and new competitors, existing competition. (Sigitas Vaitkevičius, 2007). Each of these five forces is based on structural features (dimensions), compare with SWOT, five forces pay specifically attention with supplier, buyer, competition, new entrant and potential substitute which collectively impact the rivalry and profit potential. The following structural chart illustrates the five factors and their detailed parameters:

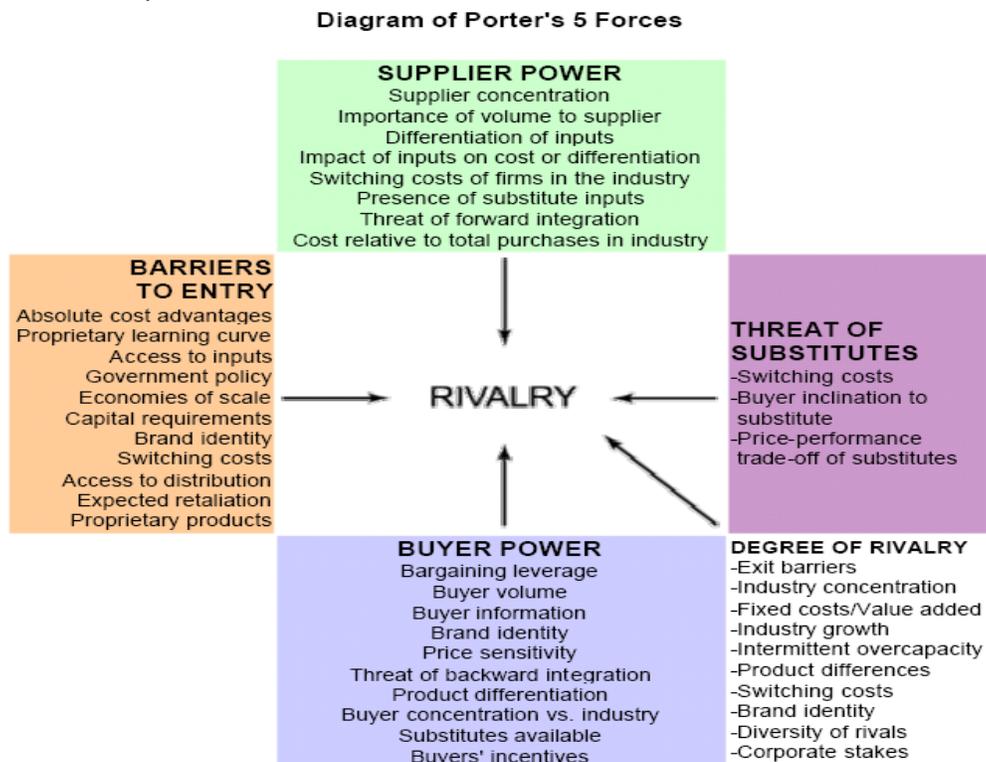


Figure 1 Diagram of Porter's five force
(Resource: <http://www.quickmba.com/strategy/porter.shtml>)

With a clear understanding of where the power lies, the user can take fair advantage of a situation of strength, improve a situation of weakness, and avoid taking wrong steps. This makes it an important part of the planning toolkit.

For case study of NCpak, five forces model would be a great help to fulfill the analysis of business environment so as to understand the relationship among these factors and how do they influence the rivalry of flower sleeves industry. Also, it can help the author to understand the EU competition and plan the right strategy for NCpak. Furthermore, through analysis of all five forces which jointly determine the intensity of the industry competition and profitability, then, the strongest forces become the crucial strategy when formulate and for decision-making.

4. FINDINGS

4.1 Market information and supply chain trends

4.1.1 Market trends

For the EU market, the total flower sleeves market is over 3 billions pieces per year, and the two popular consuming types are cut flower sleeves and pot plants sleeves. Currently, the Netherlands and Denmark are the biggest flower sleeves consumption market. While the former has a market shares of around 40%, because of several worldwide big flower auctions, and Denmark has a share of over 20% due to large production of pot plants. (Van Dillewijn Group report, 2007)

The flower sleeves market in the Netherlands is part of the whole flower trading market. A substantial proportion of the world's horticultural production finds its way to the customer through the auctions in the Netherlands. Tons of Asiatic, African, and South American flowers and other plants are flown into Schiphol (Amsterdam airport), Luxembourg, Aachen and Brussels every day and trucked over land to the main auctions in Aalsmeer and Naaldwijk. The great majority is destined for through transport. In this way the Dutch flower auctions serve as the hub supply over half of the total world production of flowers and plants.

(Source: <http://www.netherlands-embassy.org/files/pdf/floriculture.pdf>)

At least 70% of all these products are exported to countries like Germany, France, UK, and so on. The Netherlands is thus a world-class player. The Dutch flower wholesalers who re-export the imported flowers and plants often provide added (logistic) value. They have bouquets made up to the specifications of the customers and provide the flowers with labels and special sleeves, from where the flower sleeves industry engine starts. The more its export, the more flower sleeves will be used.

In the Netherlands, main flower sleeve clients are packers and big growers, and the same situation is found in Denmark. In the sub-chapter 4.2 of five force analyses of NCpak case, more specific information about market demands, players, and competitions and so on will be illustrated.

In flower sleeves supply chain, because of gapping between the supply and demand, the EU wholesalers are actually the chain leaders. However, there is also a trend of packing at source. For example, flowers grown in Africa are packed with flower sleeves in Africa, then, they are shipped directly from there to the market. As a consequence, the role of EU wholesalers will reduce if they do not integrate into the African market. During the interview with former managing director of Zwapak, he

mentioned that this is the reason why big EU wholesalers like Zwapak and Van Dillewijn have both started their own joint venture in Kenya.

4.1.2 Characteristics of EU flower sleeve user

The world market covers at present approximately 5 billions flower sleeves, about which approximately 2 billions are standard sleeves, while the Europe market has the capacity of over 3 billions flower sleeves. In the past years the production of flower sleeves were still dominated in standard devices with large batches/orders. New challenge is the desire of the customers for individual product designs and small batches. While the market of standard products stagnates or shrinks, the demand on individual customer arranged products rises (Habil and Wolfgang, 2004).

To choose the right target group for NCpak, the author collects client’s information from several big EU wholesalers. Specific client segments and examples are shown below:

Table 1 Final EU client target group segmentation

Clients Size	Clients Amount	Subtotal Sales Turnover	Turnover in %	Client Examples
Big Client	14	8.45 Millions €	26%	Intergreen, Swegro,
Middle Client	47	7.15 Millions €	22%	Top Flora, Appelboom
Small Clients	>4500	16.9 Millions €	52%	Bos Brothers, Vreugdenberg
Total		32.5 Million €	100%	

(Source: Van Dillewijn, 2007)

As indicate above, there are only 14 big size clients that occupy more than a quarter of the total turnover. Following by the middle-size clients group, it has 47 clients but shares 22% of the total turnover. If add these big clients and middle clients together, they almost have the same market economical scale as the rest total 4000 small clients.

During the interview with Zwapak (another top EU player), the similar data was found that less than 1% of their clients occupy more than 40% of their total annual turnover. And the rest thousands of clients are really smaller ones who has small orders. Therefore, within the growing product range “conical flower sleeves for the individual customer” many EU wholesalers started to develop a new business model at the beginning of the year 2003. While the average order number of items for flower sleeves is usually with 250,000 pieces, wholesalers like Zwapak and Koen Pack started to serve small batches with 50,000 pieces. And at this moment, all most all the flower sleeves have set their minimum order amount with 50,000 pieces. Because of these big groups of smaller clients, these two big wholesalers invest lots of money to have more than 100 employees so that to satisfy this group.

As a result, the most attractive clients are recognized as the big size and middle size clients. This of group of clients that the author collected so far is around 100 clients in EU market (Interview results from Former Managing Director of Zwapak). Most of these clients are big processors, packers and growers. In total, this group has a market share about 45%, which is around 1.35 billion pieces flower sleeves (Van Dillewijn, 2007).

4.1.3 Flower sleeves chain trends

The following flow chart represents the flower sleeve supply chain from China to EU market:

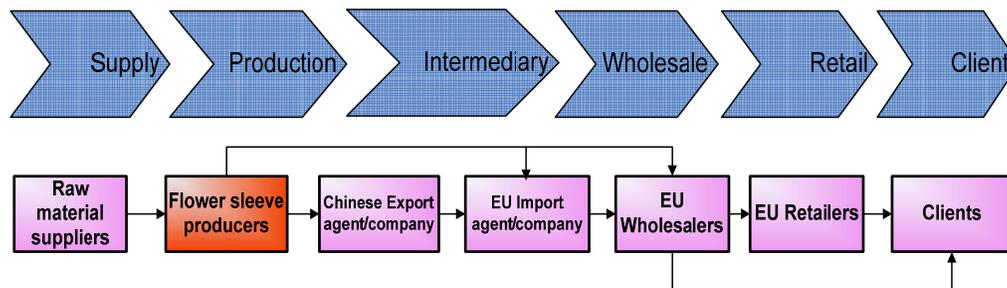


Figure 2 Flower sleeves supply chain from China to EU
(Source: Yan Xiaoyang, 2008)

The Blue blocks are the functions of the supply chain, pink and red blocks are actors in the supply chain (Red block represents the perspective of the author). Intermediary in this case are Chinese export agent/company and EU import agent/company. They fill the gap between Chinese factories to EU market, play a bridge function. Arrows in the flow chart indicate the sales activities among them.

In the last decade, many of the EU import agent/company and EU wholesalers directly purchase from Chinese factories, to short the chain and reduce the cost. Then, EU wholesalers sell the flower sleeves to EU retailers, who finally sell goods to many small-size clients. While on the other hand, especially for the big clients who can consume annually over one container, many EU wholesalers choose to sale directly to them.

Almost every company is nowadays considering the integration of its supply chain entities to yield better business performance and benefit. There are two types of chain integration, vertical integration and horizontal integration. Vertical integration means one of the actors in the chain, taking part of other activities and functions in the chain. For example, if NCpak merge with its BOPP films suppliers or when NCpak is moving directly into sales to EU market, then, it already takes the functions and activities of its supplier or the wholesalers in the chain. On the other hand, if NCpak merge several flower sleeves factories together, and it doesn't take other chain actors functions and activities but only enlarge the production as a whole, in this way, it's called horizontal integration.

Driven by competitive pressures from increasing raw materials price, and supported by developments in information technology such as internet and mobile communication, flower sleeves supply chain is facing a time to improve its efficiency and be more responsive to the need of increasingly demanding customers. Hereby chain integration approach can be the best one for NCpak to enhance its position in the chain efficiently, also access and satisfy the demand of the EU market.

4.2 Five force analysis of NCpak case

4.2.1 BOPP film Suppliers

BOPP film is one of the materials used for flexible packaging and labeling in food and non-food sectors. Flexible packaging is also produced from aluminum foil and paper. Upstream of BOPP film manufacturers are polypropylene manufacturers, and downstream BOPP film is principally supplied to converters and large multi-national consumer product manufacturers. BOPP film can be subdivided into transparent, white/opaque and metalized plastic material. (Mario Monti, 2002)

From searching with internet and visiting the BOPP producers' website, the author found that Chinese BOPP suppliers usually purchase advanced automatic BOPP production line from France Company of DMT, Japanese company of Mitsubishi, Germany companies like Brucker and W&H. These production lines can have a production line up to 8m wide with speed of 500m/min, and each production line cost around 30 millions Euros which can produce annual BOPP production of more than 50,000 tons. All these companies mainly located in Zhejiang, Jiangsu and Guangdong provinces.

In 2002, total BOPP production is around 600,000 tons in China. Among the BOPP film producers, ten big BOPP producers are Zhejiang Da Dongnan, Ya Su, Yi Mei, Fu Ling, Jiangsu Zhongda, Heng Chuang, Fo Shan, Jin Ling, GuangDong Hong Ming, Yun Tong, together occupied more than half of the BOPP production. Because of increasing market demand and profit driven, many BOPP companies start to enlarge their production capacity. The production soars up with average 25% from 2003 to 2007. Nevertheless, there are 20 new product line is undertaken while 12 of them are starting to produce this year. By the end of 2006, Chinese BOPP producing industry has developed 137 production line, and total production capacity over 2 millions tons which has an economical scale of 3.6 billions Euro. As a result, Chinese factories exactly become the top BOPP producer in the world. (Shan weizhong, 2008)

BOPP film producing factories purchase their raw material of polypropylene (PP and OPP) plastic resins from big chemical company (Petrochina, Sabic, Sinopec, Basell, etc.). And both BOPP and OPP film (plastic films) can be used for producing flower sleeves. At this moment, there are 6 PP producing factories has production annual capacity over 200,000 tons, and around 9 OPP factories has the capacity around

100,000 tons. In total they supply over 2,100,000 tons of raw materials. Furthermore, in 2006, one of the biggest Chinese oil players Sinopec invest billions of RMB and start their new PP plants in Guangdong province, which aim to has a total PP production of 800,000 tons in 2009. (INSTOK annual onshore market report, 2006)

Among these big BOPP producing leaders, none of them starts to cooperate with each other, besides positioning other as competitors them all utilize the price war to defend. As a result, so far, there is no legal BOPP producers' association or any informal institutions or organizations, which can result in miss match between supply and demand together with entire industry disorder.

4.2.2 BOPP Flower sleeves producers

There are 9 big flower sleeves producers in China that mainly export. Most of these companies has annual turnover of more than 20 millions Euros (through visiting their websites and internet searching result). These are NCpak (Sun Hing Plastic Bag Factory), Zhejiang Xinfeng Plastic Industry Co. Ltd, Ningbo Tengda Packaging Co. Ltd. Perfect Packing Co. Ltd, Zhangzhou Sunshine Plastic Packaging Co. Ltd., Welpak International (HK),Ltd, W&G Biaxial Materials Technology Corporation, Tianjin Food Packing Co.,Ltd. Yiwu Jufeng Plastic Co. Ltd.

Members in above are main competitors for NCpak, and there are several similarities in this group. Based on internet search results, the author summarizes the BOPP flower sleeves producers' characters: firstly, each of them has dependent production and financial capacity to compete; secondly, all of them have similar investment capital (8 million Euros), employee numbers (300~500), imported advanced equipments from Japan and EU; thirdly, they all achieved ISO certificate and with average market experiences around 10 years; fourthly, almost all of them located in the big Chinese ports like Tian Jin, Shang Hai, Ning Bo, Shen Zhen, and Hong Kong. Least but not least, their most common similarities are based on cheap labor, similar production technology from Taiwan and mainland of China, high raw material cost. As a result, they have similar competitive advantages which result in there is no unique competence among them. This is the reason why they usually choose to lower price to compete and in order to make themselves seem unique, while most of time just obtains a limited benefit and let EU importer and wholesalers to take advantages.

Moreover, from interviews with NCpak's export manager and general manager of Welpack, together with internet searching, there are about 12 BOPP film unstable processors in China. They are Qingdao Nissin Packing Industry Co. Ltd, Qingdao Xincheng Plastic colorful Printing Co., Ltd, Nowpack Plastic Bag Product Factory, Euro-Amer Packing Co., Ltd., Nanjing Sky Land Business & Industrial Co., Ltd., Nan Sing Plastics Limited, Dongguan Haiyi Industry Co., Ltd., Jinguan (Longhai) Plastic Packing Co., Ltd., Guancheng Packing Co., Ltd., Point International Ltd, Zhejiang Kinlead Packaging Material Co., Ltd. they producing both for exporting and domestic using. These are potential competitors for NCpak, but most of the time, these

companies won't initiatively contact with EU importers and wholesalers. However, if the EU importers and Wholesalers contact them and ask inquiry, they start struggling to catch these orders by offering low prices.

Furthermore, because of these unstable competitors, the competition of flower sleeves supply market become even worse and disorder, said the export manager of NCpak. Therefore, the minimum order amount range from 20,000 pieces to 100,000 nowadays, while a common minimum order is 250,000 pieces. For mass production factories like flower sleeves, the more it produces per unit time, the more margins it gains. As the minimum order declining, factories have to afford more work labor for designing and producing. Then, the margins actually decreased as factories doing the more workload for the same amount of production.

4.2.3 Flower sleeve Buyers

Through internet searching, there are around 40 flower sleeves trading company in the main EU market, including EU wholesalers and retailers. About 13 players located in the Netherlands, about 7 of them are big players with annual sales of more than 100 million pieces; and Dutch wholesaler Van Dillewijn and Zwapak have brand name and they are the top leaders who can sell over 400 million pieces. All these 7 big players located near Flora Holland auctions and garden centers, from where it supply beautiful bouquets and pot plants all over European and other countries.

Nevertheless, the Netherlands flower sleeves importers also main suppliers for Denmark and UK, where they have very good sales. As a result, totally together, the Netherlands covers more than 60% of the total market. In Denmark, there are 5 flower sleeves trading companies (2 of them also produce flower sleeves on a small scale), most of them are wholesaler and retailers, their main markets cover the whole Scandinavia area (more detailed information about market a competition is indicated the following EU competition). From purchase manager of Zwapak, he mentioned the most popular flower sleeves that EU imports are sleeves with transparent, "V" type, thickness of 30µm and 40 µm, size 40(length)x30(upper width)x12(bottom width), 50x35x10, 60x40x18 and 70x40x15, etc.

By contact with some of these players by phones and emails, the author concludes the EU wholesalers have the biggest bargaining power because of being in the market, have client database, good logistic support. Zwapak for instance, they have the brand in flower packaging industry for more than 70 years, and due to their brand name they can both take advantages from Chinese factories and their clients. Moreover, because of their sufficient stock, many middle size clients and smaller clients order from them, they have a client database of over 6000. Dutch logistic support has also offered it the competitive advantage. Therefore, they sell over 200 containers of flower sleeves (more than 400 millions pieces) each year, which equal to around 40% of its annual turnover. To some extent, this kind of big wholesalers exactly set up the market price.

NCpak's export manager said that NCpak supply its products to EU wholesalers like Zwapak and Broekhof, while Zwapak usually purchase about 40% of its total production (80 million pieces, 40 containers) but the last two years it has decreased to half of it (around 40 million pieces). And Broekhof annually purchased around 15% of the production (around 30 million pieces), but from last year they start decreasing purchase from NCpak. From January to July 2008, it totally purchased around 10 million pieces. NCpak believes that both of these two big clients have changed their outsourcing strategic supplier from NCpak to other factories. NCpak felt the heavy pressure because of EU wholesalers' strategy changes.

4.2.4 EU Competition and Competitors for NCpak

Most EU players have their own sales market and groups of clients, they serve clients with FCL & LCL shipments (Full/less container load for core/smaller customers). While for NCpak, in case of setting up an EU sales agency, NCpak's competitors should not only include Chinese flower sleeves producing factories but also have to involve in all these EU producers, wholesalers and retailers.

NCpak's main EU competitors are Koen Pack, Zwapak, Broekhof packaging, Horti international trading, Van Dillewijn Group, JBB Pack and so on in the Netherlands. Turner Langdale Limited and Geerings of Ashford Limited from UK, Flora Marketing APS, Elmer Print A/S, Hassoe, Horti Print A/S, flora Marketing etc. from Denmark, and KAMFA from Holland/China. Nevertheless, it also needs to compete with the Dutch flower sleeves producer Atlas, and German producer Wentus, and 2 smaller local players, Elmer Print and Hassoe in Denmark.

After interviews with managers of EU players, the author summarized the EU competition in the following table. It indicates the main competitors in EU market and their annual sales, market, price level and the source of their products, etc.:

Table 2 EU competitors' market competition analysis

Company name	Function type	Main market	Price index	Sales pieces per year	Market share	Product source
Wentus	Producer & wholesaler	GER, NL, DN, UK,	110	1.2 Billions	>30%	GER & NL
Zwapak	Wholesaler & retailer	NL, DN	100	>0.4 Billion	>13%	CHN & NL
Van Dillewijn	Wholesaler & retailer	NL, DN	105	>0.4 Billion	>13%	CHN & GER
Broekhof	Wholesaler	NL, DN	100	>0.2 Billion	>7%	CHN
Atlas	producer	NL	105	0.3 Billion	(10%)	NL
Elmer Print	Producer & wholesaler	DN	105	around 0.2 Billion	<6%	DN & NL
Horti Print	Retailer	DN	110	0.1 Billion	(3%)	NL
Flora Marketing	Retailer	DN	110	0.1 Billion	(3%)	DN & GER

Acronym in the table: China (CHN), Germany (GER), the Netherlands (NL), Denmark (DN), United Kingdom (UK)

Price index: the author use Zwapak's product price as 100, and use other company's price divide Zwapak's product price and then times 100.

(Source: Yan Xiaoyang, 2008)

Among these competitors, the biggest one is Wentus who is both flower sleeves producer and wholesaler from Germany. It has a production of 1.2 billions pieces flower sleeves (it purchases BOPP films from China and process them in the Netherlands) every year, which equals to more than 1/3 of the total EU market demands. It is the biggest player in EU flower sleeves market who has sales subsidiaries in NL, Denmark, UK and other EU countries. Wentus places itself with approximately 420 co-workers within the ranges film extrusion, printing and confection. Mainstays of sales are blank and printed on role commodity, biologically degradable products and conical flower sleeves. Their products' prices are usually around 10% high than same quality product that outsourcing from China, but their advantages are easy communication, quick reaction time (lead time) and best quality (less transport damages).

In the past years the production was still dominated in standard device with large batches/volumes. Wentus has been challenged by the desire of the customers for individual product designs and small batches from 2004. While the average order number of items for flower sleeves is usually with 250,000 pieces, Wentus strives now on for economically to manufacture also small batches with 50,000 pieces or less. This for a mass manufacturer extremely ambitious project pushes to numerous barriers.

Wentus together with Dutch wholesaler Zwapak, Van Dillewijn and Broekhof, they

cover about 70% of the market. While the three Dutch wholesalers mainly purchase their goods from China, which is one of their advantages based on competitive purchasing price. Meanwhile, they sometimes also order limited amount of goods from Wentus or Atlas. Actually, being afraid of losing their client information, Dutch wholesalers usually avoid purchasing from nearby sleeves producer (Wentus) but from China.

Because of competition, one of the big EU wholesaler and benchmarking player called De Klerk (Dutch producer and wholesaler) went bankrupt in 2006 because of wrong price strategy. In 2005, they start the price war and supply the market with very low price products around 10% added margin based on cost price. However, in the end of 2006, they can't continue supply the market with the same quality and lower price products and bankrupt.

4.2.5 New Entrants

Attracted by the profit of flower sleeves business, there are new wholesaling entrants like JBB pack and Horti International Trading from the Netherlands.

JBB Pack is a young flower sleeve wholesaler which was founded several years ago. Their main market is in the Netherlands, but also search client internationally. Its target group included EU growers, exporters, retailer and wholesaler. They mainly offer customer-made products and usually have common types of flower sleeves in stock that can be easily accessed from its website.

Horti International Trading is a joint venture between a Dutch company and a Chinese company, they are not the flower sleeves producer and their core businesses are focusing on exporting garden tools, flower trolleys, electronics. When I pretended as an EU client and send them inquire, and I found out they need to outsource from other companies (judgment based on information exchanging, long response time) and add a high extra margin (checked from NCpak with their product prices). In short, it can not be a competitive competitor for NCpak as a reason of being distance from flower sleeves producing industry.

4.2.6 Substitutes

Talking about substitutes of BOPP flower sleeves, answers from the interviewees are following: in general, BOPP flower sleeves will continue to grow for at least ten years; although people are caring about environment, their requests for degradable flower sleeves are rather limited (General manager of NCpak said they can also produce biodegradable flower sleeves, but they are more expensive than BOPP flower sleeve), which means the EU flower sleeves traders didn't believe there will be a big threaten.

BOPP flower sleeve is just a packaging material, and it becomes only a small part of the bigger flower chain. And for BOPP flower sleeves producers, they can easily

produce CPP flower sleeves because of same process. The only difference is the raw material is replaced by CPP films; while other substitutes for packaging flower mainly are paper sleeves, plastic and paper boxes, non-woven packages should be considered.

Paper sleeves have several disadvantages compare with BOPP sleeves; firstly, paper sleeves has a short shelf life compared to BOPP sleeves; despite excellent environmental credentials, perception is that paper sleeve production is polluting and wasteful because of it's energy intensive, water intensive and production waste (eg: sludges); and because of high humidity during flower storage and transport, paper sleeves can be easily damaged during packaging and transport; last but not least, paper sleeves are not transparent, client can't get clear vision about flowers. Because of above reasons, although the price is cheaper than plastics sleeves, but its market rather limited and they are used mainly in flower shops as a gift packaging.

Similar limitation is for paper box, meanwhile paper box is mainly used in retailers' shop for pot plant as a convenient/expensive carrier, and most of time they still need the BOPP sleeves as decoration and protection. About plastic box, they are much more expensive than the single sleeves, moreover, bouquets packaged with plastic boxes (always with water inside) will occupy more spaces and increase transport cost.

Non-woven fabrics are produced from man-made fibers made from polymers. Two synthetic polymers dominate the market: polypropylene and polyesters. The global market for PP-based non-woven is 2.8 million tones in size and is growing at 7% per year. The market in Western Europe is 700,000 tons, which accounts for about one fourth of world demand. Major raw material is polypropylene resin. (Source:http://www.rabighcip.com/Seminars/Opportunities_at_RCIP.pdf).

While non-woven fabrics are usually used in retailer shops because of expensive and high added value. The price per piece is about 0.35 to 0.45 Euros, which is ten times more expensive than BOPP sleeves. During the interview with purchase manager from Zwapak, he said the non-woven fabric packaging is less than 1% of their total turnover (about 600,000 Euros), and the sales of it only has a slightly increase from the last year. As a result, non-woven packaging substitutes will not be a big threat for BOPP flower sleeves in the coming years.

4.3 Strategic analysis of NCpak

In this sub-chapter, the main analysis is done through SWOT (strength, weakness, opportunity and threat) analysis of NCpak. SWOT analysis facilitates the assessment of internal capabilities and resources as well as external factors that influence companies' achievement and profitability. It is an extremely useful tool for understanding and decision-making for analysis NCpak case, especially for the examination of NCpak's internal strengths and weaknesses, and its external

environments, like opportunities and threats. By using SWOT analysis, it's easy to find out the potential good strategy for NCpak to choose.

<p style="text-align: center;">STRENGTHS</p> <ol style="list-style-type: none"> 1. Global Player & Competitive price 2. Close to BOPP suppliers and Port 3. Awarded ISO 9001 for high quality product and excellent factory management 4. Quick lead time (6 weeks) 5. Cheap labor based 6. Wide products range to satisfy clients 7. Sufficient financial capacity 8. Quick response speed to queries / problems 9. Quicker reaction and proactive to changes in the market (trends, (new) products, competitors, quality) 	<p style="text-align: center;">OPPORTUNITIES</p> <ol style="list-style-type: none"> 1. Build brand awareness 2. Access to EU market & information 3. Adapt to Dutch based logistics (Port to Europe) 4. Increasing flower sleeves demand in EU market 5. Achieve sales in volumes and market share 6. Develop long term partnership and cooperation with EU players, or set up its own sales agency 7. Adapt to new technology (machines) and innovation
<p style="text-align: center;">WEAKNESSES</p> <ol style="list-style-type: none"> 1. Export mainly dependent on EU wholesalers 2. Insufficient EU market information result from distance from the market 3. Knowledge and skills of total chain 4. Brand building is expensive 5. EU/Dutch import licenses(if set up a EU sales agency itself) 6. Communication (EU language) and without experienced EU employees 	<p style="text-align: center;">THREATS</p> <ol style="list-style-type: none"> 1. High raw material (BOPP film) cost 2. Strategic alliance from EU players 3. Initiate price war from competitors 4. Packaging tax increased (NL) 5. Substitute market share increased (paper packing sleeves, etc) 6. Changeable currency exchanges rates

Figure 3 SWOT analysis about NCpak

(Source: Yan Xiaoyang, 2008)

Based on above analysis, NCpak has the weakness of exporting highly dependent on EU wholesalers and being distance from the market, which is also the problem they are struggling and they must find a solution now. While there are also threatens for this industry, such as fierce competition, price war, substitutes packaging materials etc. However, the good things are NCpak has the opportunities to access to the market, achieve market shares, select target groups between core/big clients and smaller clients (different targets groups need different services), adapt to new technologies (for production) and Dutch based on logistics.

4.4 Feasibility and profitability of the new chain

4.4.1 Chain actors and their functions

Chain actors: In the flower sleeves supply chain from China to European market, in general, the main actors are BOPP film suppliers, flower sleeves producing factories, Chinese exporter companies, EU importers, EU wholesalers, EU retailers are also a kind of local intermediary, EU clients are mainly cash and carries, while the final clients' are bouquet makers, flower packaging companies, garden centers, supermarket, flower growers and flower shops.

Actors' functions:

Detailed main functions of chain actors are indicated in the following graph:

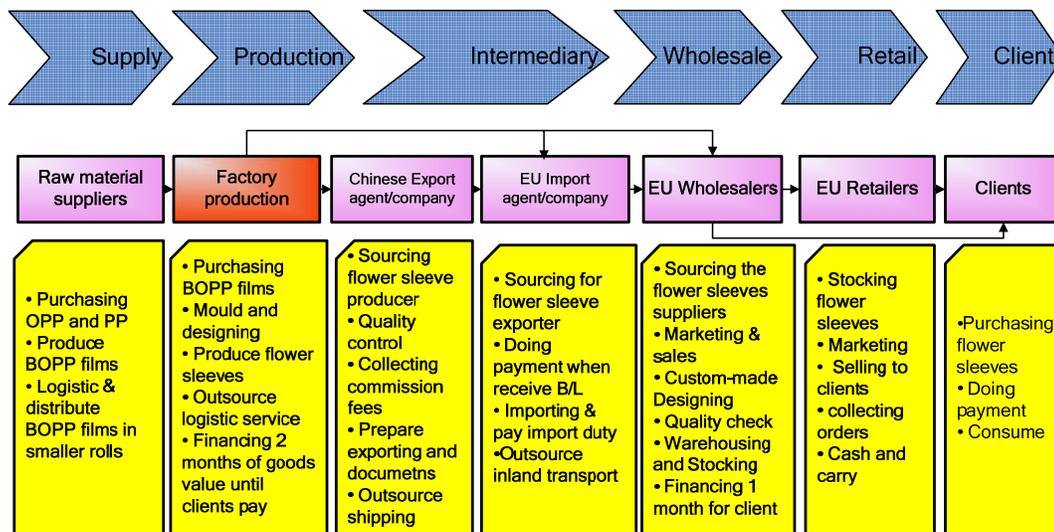


Figure 4 Actors and their functions in flower sleeves supply chain from China to EU

(Source: Yan Xiaoyang, 2008)

BOPP suppliers' function is purchasing OPP and PP raw materials (from Petrochina, Sinopec, Sabic, Basell, etc.) and produce BOPP films in smaller rolls(1 meter wide) with a certain thickness then, they will also distribute to flower sleeves producing factory. Flower sleeves factories' functions are: to mould and designing, purchase BOPP film in small rolls, then produce (print, cut and seal, etc.)them into required "V" or "Y" shapes; financing the products according to contract (maximum 2 months). Chinese export companies' functions are mainly searching for flower sleeves producers, prepare export documents and charging commission fees.

While many EU importers' have the functions of searching for lowest Chinese suppliers, (which include Chinese flower sleeves producing factories and some of the Chinese exporters), importing and doing the relevant payment, outsource logistic

service. EU wholesalers' function are sourcing flower sleeve suppliers, doing marketing and sales, warehousing and stock inventories, financing one month before clients' payment. EU retailer's functions includes marketing and sales, they offer the final clients with services like cash and carry and customer-made flower sleeves, moreover, they usually has a small amount of flower sleeves in stock.

Obviously, due to similar functions and activities, there can be opportunities that the EU importers and wholesalers merge into one organization. And some of the EU wholesalers not only have the function of wholesaler but also have the function as EU retailers. While for most small size EU retailers, they frequently purchase from wholesalers, then sell them to final clients like flower growers or flower packers.

NCpak network

Comparing with the total supply chain from Chinese factory to EU clients, NCpak has rather limited information about its supply chain. Here below in bright blue color illustrates the information about NCpak's business network to EU market mentioned by the export manager:

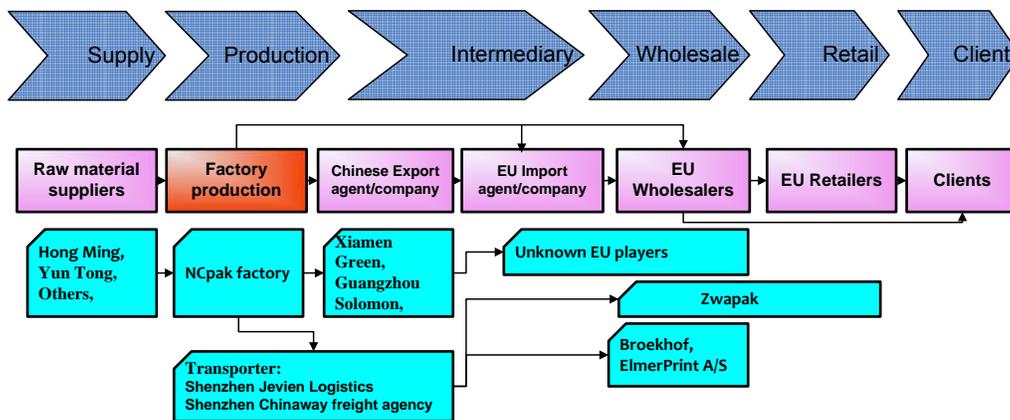


Figure 5 Comparison between the flower sleeves supply chain and NCpak's network (Source: Yan Xiaoyang, 2008)

Obviously, the information of EU import/company, EU retailers and final EU clients are missing, and the information of EU wholesalers is also limited. Even the general manager of NCpak can only name few names of its suppliers and clients. During discussion with general manager and export manager of NCpak, they told me some specific data. For instance, its main BOPP film suppliers are Guangdong Hong Ming (35%), Yun Tong(50%), other suppliers (15%).

NCpak as a factory its main functions are producing and storing the flower sleeves; two export companies who purchase (10% NCpak's total production) from NCpak are Xiamen Green import & export and Guangzhou Solomon export trading company, their main functions are: products quotation on time, inspect goods of order, making the packing list and invoice, booking air and sea shipment (FCL & LCL), tracing cargo

and confirming B/L, etc.

The transport company that NCpak's has Shenzhen Chinaway freight agency co.,ltd and Shenzhen Jevien Logistics Co., Ltd. They supply service like: air/ocean international freight (FCL or LCL), cargo track and trace, warehousing facilities & distribution service, delivery service and re-packing (labeling), door to door transportation, general container trailing, trading agent for Import & Export, source and evaluate manufacture and suppliers, foreign trade collection, currency receiving & transferring, customs declaration & documentation, inspection & quality control services, control quality of your products manufactured in some factory, production and quality assurance, etc. (source: <http://asunny.tradewebsites.net/>)

NCpak's export manager mentioned about the EU import agent/company, but he mentioned it doesn't occupy a heavy rate of the business. NCpak's main EU clients are wholesalers like Zwapak (40%) and Broekhof (15%), Elmer Print A/S (5%), but the former two Dutch players have decreased their purchase since last year. NCpak believes that both of these two clients have changed their outsourcing strategic supplier from NCpak to other factories. Moreover, NCpak doesn't know how EU wholesalers organize their business in Europe.

Then, the author visited Zwapak's website and also have discussions with former managing directors. Zwapak is an EU wholesaler and a retailer, who serves a client group of over 6000 and has an annual sales over 400 million pieces. After the discussion with the former managing director of Zwapak, he agreed that wholesalers' functions are in general the same as described in figure 5 of chain actors and functions.

4.4.2 Logistic management/process of the chain

In BOPP film producing factory, where BOPP films seem to be produced in the similar way, virgin PP (polypropylene) resins grains fed into the BOPP film extruders/ expander, under high pressures and several treatments they become wide and transparent BOPP film rolls (5 meters wide). The significant thing is that the BOPP film extruders are very expensive, which is about 30 million Euros for each production line. This is the key barrier that stops NCpak to merge with its suppliers and do it by itself, said general manager of NCpak. The following figure shows the whole process:

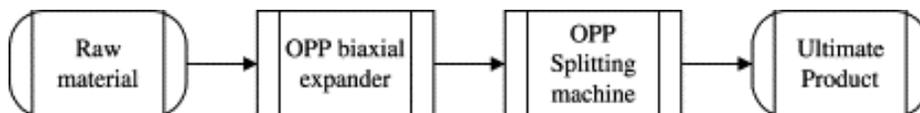


Figure 6 BOPP film production process

(Source: Pei-Chann Chang, Jih-Chang Hsieh, Yen-Wen Wang, 2003)

The production process consists of two workstations, one equips with only one OPP biaxial expander and the other has several OPP splitting machines. The raw materials

are consecutively fed into the OPP biaxial expander and then the OPP splitting machine to produce the final products. The changeovers occur when the product types switch, the operators usually group the orders with the same thickness together for the sake of convenience. The time, raw materials, equipments to be necessarily prepared for the next job depend on the preceding job. (Source: Pei-Chann Chang, Jih-Chang Hsieh, Yen-Wen Wang, 2003)

For flower sleeves produce process, nowadays, after received orders, NCpak start to purchase BOPP film (usually around 1 meter to 1.5 meters wide) from BOPP factories' warehouse. Then, in NCpak, these films will go through the computerized rotogravure printing machines with 6-10 colors or flexographic printing machines that can print up to 8-10 colors with high speed and good quality of printout. About 150,000 pieces of various sizes and formats of flower sleeves are produced hourly by 30 converting machines and skillful technicians. After printing, films will be converted into sleeves, sealing and cutting. (Source: General Manger of NCpak, 2008)

Later on, sheeting or sealed and serrated flower sleeves are separated and packaged in test cartons. After that, every production line is inspected and recorded continuous for best sealing and perforation. Flower sleeves are putting into blocks (50 to 100 each block), then, 10 to 50 blocks of flower sleeves will be put into box/carton (about 1,000 to 2,500 pieces/box). Usually 40 boxes on each pallet that is strapped or sealed. Finally, big size and quality are monitored continuously, sample flower sleeves from each box are measured and seals are tested, every carton is weighed, recorded, inspected for quality assurance. When the deliver time arrives, maximum 80 pallets can full fill in one ETU (electronic tag unit) container. (Source: General Manger of NCpak, 2008)

For the whole logistic management frame work, it starts when there are contracts signed. Usually, after Chinese factories like NCpak got orders and signed contact, they start to purchase BOPP film from their suppliers' factories. Then, most of the time, these BOPP film producing factories will make free delivery if flower sleeves factory order a full truck and within 100 km (mentioned by NCpak's general manager). This is also the reason why most of the flower sleeves factories prefer to set up their factory near the big BOPP factories, also, in order to reduce transport cost from factory to port, most of them also choose their location very close to ports.

Delivery term of CIF (Cost, Insurance and Freight) to Rotterdam, Hamburg or other EU port is the most common way that EU importers used to purchase flower sleeves from China (Personal communication with Zwapak's purchase manager and NCpak's export manager). With CIF, Chinese suppliers have to deliver the required goods to a certain EU port and also prepaid the insurance and freight cost. In NCpak case, the transport company Shenzhen Chinaway freight agency or Shenzhen Jevien Logistics will fulfill duties like booking space, prepare customs declaration and documentation, and trace the container and so on. Booking freight is their responsibility, which now is

especially more difficult than before, since the sea ships are fully booked with exports goods from China into Europe.

Documentations included bill of lading (B/L), certificate of origin, commercial invoices and packing list should be prepared by Chinese factory or its export agent/company. Then, as the EU importer, EU wholesaler Zwapak for instance, it can import but it has to outsource an import agent/company (also has logistic function) to deal with the custom clearance and pay import duty. Usually it chooses a logistic based import company to fulfill all these import activities and inland transport.

Many EU wholesalers outsource the collection of these containers to a logistic company and take care of inland transport. After received the container, for EU player with both wholesaler and retailer function, they usually unload the container and make a stock for retailers. Sometimes if the container is especially custom-made, they will deliver the container from port directly to this client.

4.4.3 Cost and margins shared in the chain

Usually a 40 feet container of flower sleeves, which was purchased from China costs from 35,000 Euro to 55,000 Euro, the price of goods depending on flower sleeves' thickness, size, design and print (information combined from purchase manager of Zwapak and export manager from NCpak).

Generally, the EU importers' cost price that is contributed by chain actors and supporters is showed in the following pie chart:

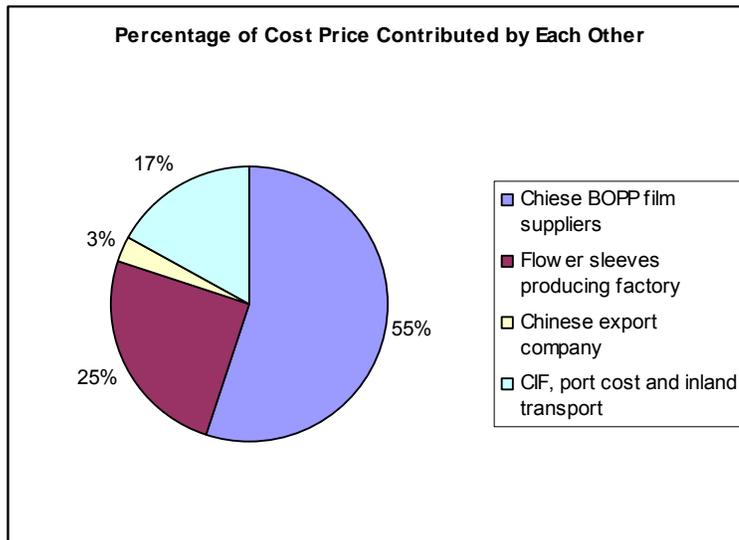


Figure 7 EU importers' cost price contributed by chain actors and supporters
(Source: Yan Xiaoyang, 2008)

As it shows above, among all the cost, the raw material (BOPP film) cost around 27,000 Euros. The flower sleeve producing factory shares 25% (around 12,000

Euros); after that, around 3% of the goods value is shared by Chinese export company as commissions; the rest around 17% cost are shared in terms of CIF and import duty and inland transport. Usually, the CIF costs 3,300 Euros to 4,000 Euros and then this container arrives in Rotterdam. From Rotterdam port, there are several extra costs: 6% of total import value as duty fees, terminal handling fees at least 500 Euro, inland transport 800 Euros. All these costs together are considered as import cost. Later on, the EU importers or wholesalers will add 15% to 50% of total cost as their margins (for covering their costs and expenses and for their profits).

To illustrate the costs and margins shared in flower sleeves supply chain from China to EU market. An example is shown as following: a Dutch flower grower purchased a 40 feet container flower sleeves and he paid 58,140 Euro in total. If this container has contributed by all the actors, then, the shares of cost are indicated in the following chart:

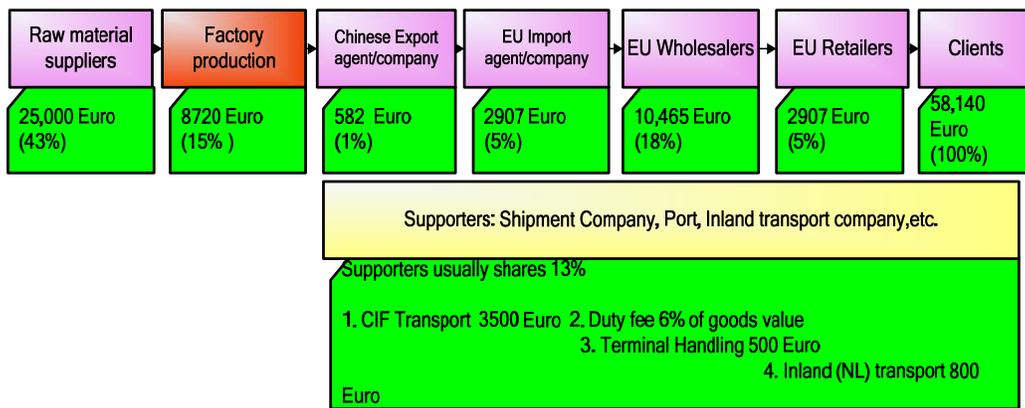


Figure 8 Percentage of sales price for final EU client contributed by all chain actors and supporters

(Source: Yan Xiaoyang, 2008)

BOPP film suppliers share 25,000 Euro, which equals to 43% to the total price that the end Dutch grower paid, this is also the biggest part of the share in the flower sleeves supply chain. The rest big shares in turn are occupied by EU wholesalers about 18%, Chinese producing factories of 15% and a group of supporters (include shipment company, port and duty fees, inland transport) together charge 13%.

4.4.4 Chain supporters and influencers

During research process, most of the interviewees said that they didn't feel so much influence from outside organizations. While talk about influencers, there are several I think it's very necessary to mention here in the following graph in green color blocks.

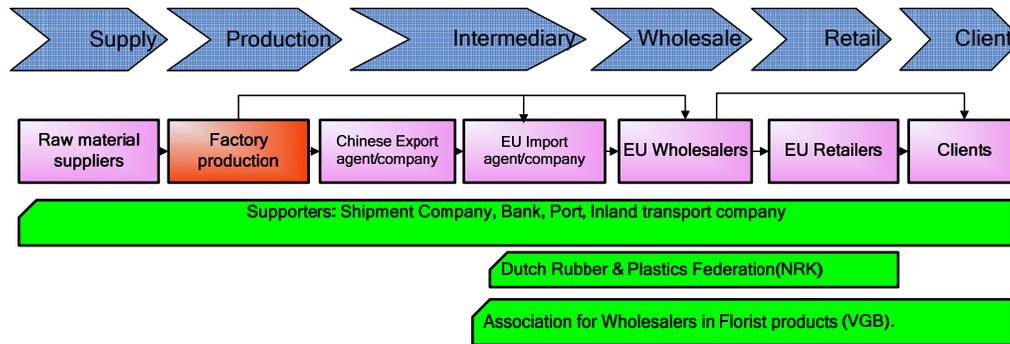


Figure 9 Chain influencers and supporters of flower sleeves supply chain from China to EU market

(Source: Yan Xiaoyang, 2008)

Supporters like shipment companies, banks and ports from China and EU, inland transport companies. For Dutch players, two most important influencers are the Dutch Rubber & Plastics Federation (NRK) and Association for Wholesalers in Florist products (VGB).

The NRK (the Dutch Rubber and Plastics Federation), is the association for the rubber and plastics industry in the Netherlands. It has a membership of approximately 650 companies, representing 80 per cent of the total plastics market. The members include converters, producers and suppliers of raw materials and additives, recycling companies and suppliers of machinery and equipment. All generic issues relating to plastics and rubber come under the auspices of the NRK, and members have organized themselves into specific plastics groups.

NRK's three main functions:

- 1). To provide information about plastics and rubber and enhance its image
- 2). To build and maintain contact with policy makers
- 3). To act as a centre for action and business support services

(Source: <http://www.nrk.nl/web/english/Pages/default.aspx>)

As guardian of plastics and rubber interest, it ensures representation of its members to policy makers. The NRK negotiates and consults with the Ministry of the Environment and the Ministry of Economic Affairs, which means a constant dialogue in The Hague where the government has its seat, so that the members can concentrate on their main task.

It provides clear and accurate information about laws and regulations, and by practical assistance in applying for subsidies. Besides the routine contacts, discussions are regularly held on the opportunities and threats to plastic industry and about the successes it has achieved. Furthermore, intensive discussion at state and provincial level, and also at European level, through the Association of Plastics Manufacturers in

Europe (APME), the umbrella organization in Brussels, has achieved positive results for many companies.

Association for wholesalers in Florist products (VGB)

The production of Dutch flowers and potted plants at about 10,000 companies is extensive. That also applies to imports, through auctions or by the wholesalers. In the Netherlands, approximately 1,100 exporters of flowers and plants housed. Together with the domestic wholesale trade, they have an important role in the sale and distribution of flowers and plants. The Dutch wholesale accounts for 70% of the global flower trade and it is a market leader in Europe. (Source: http://nm.vgb.nl/prg/newsmaker?FIRM=VGB2005&DP=show_page&TXT_DIR=/NL/ENGELSE_SUMMARY/)

The combination of quality, availability, renewal of both products and marketing and logistics service are the strengths of the Dutch wholesale flowers and plants. The flowers and plantenhandel is concentrated in the west of the country with Canberra, Naaldwijk, Rijnsburg and Bleiswijk as locations for the largest auctions. The association represents the sector in all bodies relevant for wholesale trade, such as the Agricultural Wholesale Trade Board, the Horticultural Commodity Board, the Holland Flower Council and many others. It also serves as a discussion partner for government authorities, political and social partners.

4.4.5 Challenges for flower sleeves industry

Macro environment:

Macro environment usually are very useful to clarify the potential changes beyond the sector itself, here in NCpak case, the author mainly focus on issues like influence of increasing oil price, import duty, sea freight transport cost trends (one of the main channel for exporting goods from China to EU), and alternative international payment term of Euros and Dollars.

Oil price increase result in BOPP film supply price increase

As oil price increasing, besides the increasing of transport cost, the raw material PP (polypropylene) resin of made for BOPP film also increased. China is one of the five key synthetic resin consumption countries in the world. Since 2007, because the downstream demand increases rapidly, the production of synthetic resin has been on a steady increasing trend. The output of polypropylene has a sharp increase and the price is gradually climbing.

From Jan. to Oct. of 2007, the national total output of polypropylene resin reached 16.5 million tons, up 18.48% year on year and its growth rate was 0.55 percentage points higher than the same period of 2006. As the key branch of petrochemical industrial chain, polypropylene resin keeps a rapid increase and its output and production value both increased over 15% (China Resin Industry Report, 2007-2010).

Meanwhile, China polypropylene resin has high dependency on the import, especially those special materials and high-grade materials. Because of this reason, though China is the biggest synthetic resin import country in the world, it cannot decide the price, especially the resin varieties that it cannot produce by herself, whose prices adopt the international price.

At present, the crude oil price still keeps high and the prices of the resin products are also on an ascending trend all the time. Chinese BOPP film producing factories have to accept all of these passively, which will also lead to increase of BOPP film (raw material of making flower sleeves) cost price. Figures from CBI(Shanghai) Co. Ltd indicate that, in the end of July 2008, polypropylene resin prices has climbed around 1,600 Euro per ton, and average BOPP film price is about 2,160 Euro/ton, increase 17% than 2007.

(CBI Co. Ltd was founded in 1999, it is an independent provider of services featuring market information, senior level conferences, research, and business opportunities on China commodity markets. As a well-recognized independent information provider, it has become a price benchmark in Chinese chemical industry.)

Import duties increased

According to the Netherlands import policy, plastic flower sleeves that are imported from China have to pay import duty of 6% of total goods value (Personal communication with purchase manager from Zwapak). While if the Dutch flower sleeves wholesaler import same values of products from Vietnam, they do not need to pay any import duty (Vietnam is considered as a developing country). And he believes the taxes on packaging material will continue increase slightly in the coming years. (Specific requirements with concern to this increasing of import duty were not found.)

Sea freight transport cost increased

As there are more and more goods export from China to EU (dollars clips, Euro are more reliable) with limited shipment space. Due to the supply side of shipping companies is smaller than demands side of exporting, the sea freight become very popular and expensive than before. Flower sleeves container for instance, the price of sea transport has increased from 2,200 Euros in 2003 to around 3,500 Euros nowadays (mentioned by former Zwapak managing director, their transport cost increase a lot).

RMB currency exchange rates with Euro and Dollars (payment method)

To have clear understanding the relationship between RMB (Chinese Yuan) and Euro, here two graphs below show you the RMB currency exchange between Euro and dollar in the past three years:

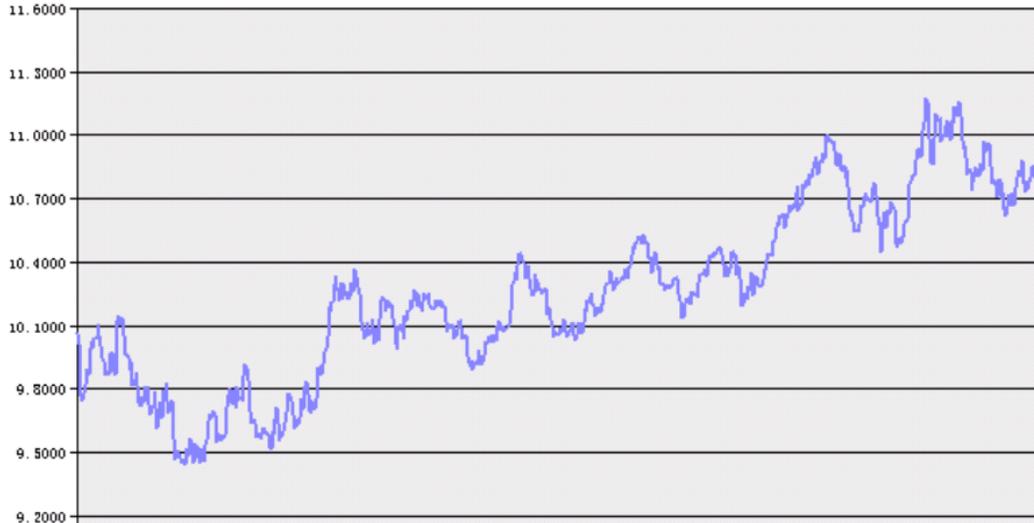


Figure 10 Currency exchange rates between RMB and Euro
 (X-axes stand for time from 21-7-2005 to 25-7-2008 while Y-axes stand the RMB amount, eg. starting point of 10.1000 RMB equal to 1 Euro. Source: The People's Bank of China)

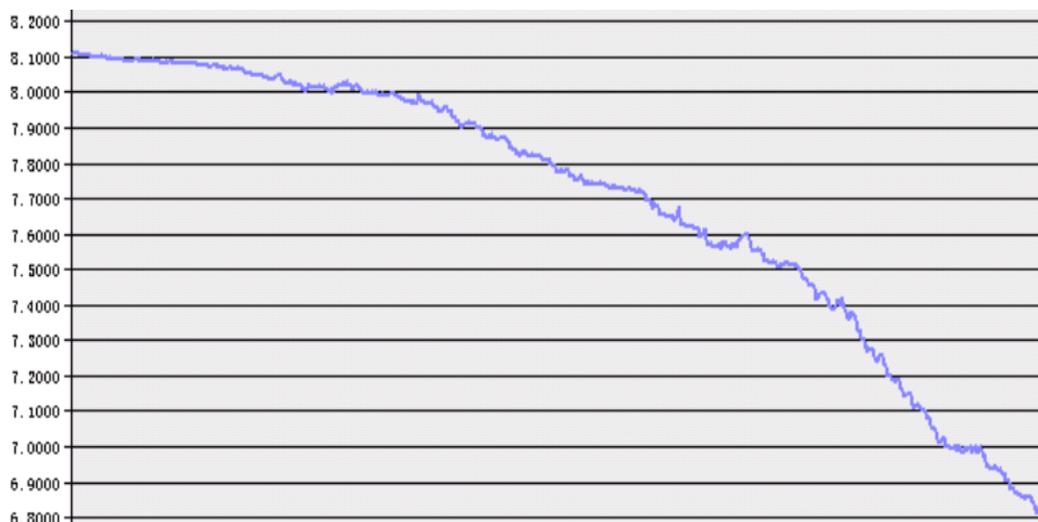


Figure 11 Currency exchange rates between RMB and Dollar
 (X-axes stand for time from 21-7-2005 to 25-7-2008 while Y-axes stand the RMB amount, eg. starting point of 8.1000 RMB equal to 1 dollar. Source: The People's Bank of China)

As the graphs shows above, in the end of July 2008, the foreign exchange currency rate of Euro/RMB is 10.87 and Dollar/RMB is 6.82. At present the euro only accounts for a little over a quarter of world reserves, against the dollar's share of two-thirds. The dollar has declined in recent years, besides losing political power, and the US will lose its exorbitant privilege. The dollar will suddenly cease to be "our currency, and your problem", and the dollar influence in international financial institutions will wane. But

Euro has increased since it starts, in the last extent; strong euro is doubtfully beneficial; so far it only makes the EU export more expensive.

US Professors Chinn and Frankel state two underlying reasons for the decline in the international role of the US dollar. The first is persistent current account deficits combined with a long-term decline in the dollar's exchange rate. The second is the emergence of a genuine alternative to the dollar presented by euro. The Euro zone economy is almost as large as that of the US and may surpass it as it continues to enlarge. (Eugene Eteris, Financial times 2008.)

For flower sleeves export business, if a client signed contract with NCpak in May 2008 with payment of 50,000 dollars, at the moment he pay in the end of July 2008, while each dollar exactly decreased 0.18 RMB, as a result, the payment actually shrink around 900 Euros. The more contracts it signed, the more lose it will be. However, if the payment is signed in Euro, then, with the same example above, NCpak can have a slightly more benefit than the time they signed contract. Obviously, the better way is to ask payment in Euro, Euro is warily increasing compares with Dollar.

Micro Environment:

After interviews with several export and import managers, for micro environments, there are several factors must pay attention to. These factors include insufficient communications, 80% of goods are customer-made (very specific), low efficiency (because of the decreasing minimum order amount, more workload for same amount of product), payments terms negotiations, CIF transport, lead time and without partnership in the supply chain.

Nevertheless, these factors are influencing each other. Payment terms depends on partnership inside supply, without this long term partnership, Chinese factories and EU importers have to waste lots of money on loose transport and also discuss every term again and again. At the same time, it will delay the lead time or the trading time. Big volumes of goods are customer-made and decreasing of minimum order amount involved in heavy communications, and heavy communications always result in communication mistakes and versus verse.

Client size and orders

In EU market, there are totally 15,000 clients. Only less than 1% is big and middle size clients and the rest are all small size clients. Big EU player like Van Dillewijn Group, they have around 5,000 clients, while around 60 of their clients actually occupied more than 48% of their total turnover, and all rest 4900 clients together cover another half of their annual turnover. Heavy communications and big stocks are made by EU wholesalers' to satisfy this big group.

All actors involved invest lots of efforts and heavy commutations to satisfy these decreased orders. From EU wholesalers' aspect, they would like to have large orders

with same design; however, many small growers would like to have several of designs to attract flower buyers attention and to be special.

Around 80% of the flower sleeves are customer-made, which are specially made with different colors, thickness and size. Hence, Chinese factory can't start to produce unless they get the specific order. Because of these differences, one can not use another ones flower sleeves in case they have different products.

Consumer trends

By interviewing with EU wholesalers' managers, the following consumer trends are obtained. Big customers are asking frequently delivery, for instance, Intergreen BV who is big flower packer and supply for many big supermarket chains, they has a consumptions of 60 millions pieces of flower sleeves annually. Mainly are unprinted sleeves which are convenient for big supermarket like Tesco and Carrefour to stake their label on it later on. For this kind of big clients (packer), they usually need at latest one container of 2 millions flower sleeves each month. And when busy season comes, from December to May, they will double their demands and sometimes 3 containers a month are not enough.

With direct email contact to few clients in Denmark, I found that these smaller customers (more than thousands of them, most of them are smaller growers) are asking for a wider range of products, frequent deliveries (request for a just in time basis from one company with minimal hassle with maximum service). They usually prefer to use nicely printed sleeves with their own label on it so as to be unique in the market. But orders from them are much smaller, usually around 10~100 thousands pieces per order, which is rather limited compares with average minimum order amount of 250,000 (an order from EU wholesaler to Chinese factory). This would be a big challenge, because of heavy workload involved, for NCpak if they select the smaller clients as a target group.

Less efficient communications

Less efficient communication is the most common mistake in flower sleeves business, especially for small clients. Usually, for a small order about 10,000 pieces flower sleeves, the grower have to explain his ideas and request to EU retailers, then, EU retailers pass this order to EU wholesalers for design. After several designs are ready, EU wholesalers pass the designs to EU retailers and then to growers, every time there is EU retailer in between, which makes this communication less efficient. And for EU retailers they get used to charge about 50% (based on cost price) as their margin because of this kind of limited amount.

Payment terms negotiation

Payment terms are always the headache for Chinese flower sleeves producers. On one hand, many EU wholesalers prefer to pay with dollars with L/C 60 days, and on the other hands, Chinese flower sleeves producers prefer EU wholesalers pay by

Euro and pay in advance. Discussions about this always cost around one week, and most of time, due to lower bargaining power, Chinese factory has to compromise and accept dollars L/C 30 days. This always put Chinese factory in a hard situation, especially worry about the declines of dollars. Now, more and more Chinese factories are struggling to get payment with Euros and as a compromise they have to accept L/C 60 days, which results in lot of flow capital stay in the bank. Nevertheless, with L/C payment, both parties have to pay extra 400 Euros for their banks. Without long term cooperation and trust, this kind of extra cost is commonly found when buyers and suppliers are frequently changing.

Lead time and transport

Lead time very from 7 to 10 weeks depends on communications and negotiations. Because of time wasting on discussions, it's common to see that an order usually lasts around 1 or 2 weeks before it is settled between EU Wholesaler and its client (mentioned by sales manager from Broekhof). Then, EU wholesalers need another 1 or tow weeks to compare supply prices and choose the final suppliers. In this way, around 3 to 4 weeks are wasted. The actual producing time is around one week, and the following is 4 weeks sea transport time from China to EU. Nonetheless, due to busy and limited space ships, it's often for Chinese factory to wait another week for freight transport. As a result, in total it is usually cost 8 to 10 weeks. (Source: former Managing Director of Zwapak, 2008)

CIF is the most preferable transport way by EU importers and wholesalers. In term of CIF, Chinese factories are not only responsible for producing the product but also arrange the transport. A common way for factories without export right/license they often choose to export through an export company, who will arrange export documents and sourcing freights. Zwapak for example, to avoid losing information client and network, EU wholesalers usually ask Chinese factory of export agency to deliver the documents (bill of lading, commercial invoice, packaging list, etc.) to them first, then, they transfer these document to EU import agency for custom declaration and so on.

Without Partnership

Although there are tens of companies who are importing flower sleeves from China, none of these companies has build stable supply relationships with the Chinese OEM factories. Moreover, there are no packaging wholesalers associations or Chinese OEM factories associations, which has lead to a mess communications and less efficient for most of chain actors.

Lack of organization management, especially when EU wholesaler are sourcing their goods, because of unstable suppliers (according price, in different year EU wholesaler choose different suppliers), they are not able to organize their supply efficiently. Loose transport creates lots of transport cost and big inventory and warehouse cost. Zwapak for instance, there are around 200 containers of flower sleeves come from

China every year. And all these containers are prepaid CIF by Chinese factories. If Zwapak can organize its supplier in an efficient way, they can book 200 containers each year from a shipment company. Only by doing this, they can save at least 80,000 Euros.

For Chinese OEM factory like NCpak, they can not forecast and make strategic raw material stock, otherwise, they would benefit from it by aware of partner's demand in the future. On the other hands, just as EU wholesaler, if sales of NCpak's EU sales agency can increase very quickly, then, they will also have face the similar expense unless they can achieve a stable delivery and schedule and order shipment containers yearly. If so, they are able to save or reduce transport cost so that increase their benefit.

4.4.6 Functions and activities of the EU sales agency

Functions of the EU sales agency

The main functions of EU sales agency are including sales and logistics function. Nevertheless, it should have functions as a promotion places. All things like legal entity, sales, personnel, logistics, etc. have to be organized. Secondly, it should be able to provide information about EU market trends, client information, product trends and specification, EU competitions and policy changes, etc.

Main activities

Main activities of the EU sales agency are the following:

- Collect and share market information and demands with NCpak factory
- Searching for clients, face to face sales, build client database and network
- Communicate with clients and sign contracts in the name of NCpak
- Transfer client orders and to NCpak's factory
- Arrange EU transportation from EU port and deliver to EU clients.
(Importing flower sleeves and outsourcing EU transport)
- Collect clients feedback and do promotion

Above functions and activities are very necessary supports for the new supply chain. Moreover, the process flow starts and ends from EU sales agency. To some extent, the accuracy of information from it is vital factor for NCpak factory. As a result, the employee from EU sales agency must be very competent for it.

Among these factors, build client database is really the vital factor for NCpak to hold the EU market in hand. The amounts of loyal clients will result in good sales. Build EU sales network is also the compromise way to step forward in case of EU sales agency facing failure. Even the sales agency failed in the testing year, the valuable information/asset will be an achievement.

Moreover, NCpak can also use the following market penetration strategy. It aims to penetrate the market by means of having the showroom, web shop to interact with

customer. If necessary, they can use direct mailing (sample books) and advertising on publications (magazine and radios that especially on flower packers and growers). Also, they can present in packers' and growers' fairs and exhibitions as promotions.

Communicate with its clients in their language, Dutch language and Danish for examples, will remove barriers and enable NCpak to better understand the needs and wants of its client and thus increase trust and confidence for NCpak.

A good client database system with integrated customer relationship management (CRM) will also be necessary to properly service our customers. It is obvious that a strong after sales strategy gives a customer confidence to repeatedly place an order. NCpak's sales agency needs to do it better than any other player in the Western European market, with the specific target group.

4.4.7 Cost of develop the EU sales agency

For investment in EU market by setting up EU sales agency, it should be a long term planning and start with a testing period. To set up NCpak's EU sale agency, it's very necessary to make two years plan first.

In general, the sales agency will test the possibility in the first year and start with 2 employees, 2 cars, offices equipments and rent a 100 m² office. The parameter of first year success depends on whether it can succeed with selling 30,000,000 pieces or around 1% of total EU market share, or margin of 200,000 Euros, then it can be seen as succeed. If it succeeds (1% market share), then, in the second year, it will employ 2 more sales men and 1 office man. Also, necessary equipment like cars and computers need to be prepared. The sales office will need to enlarge into 200 m² and more than half of it can be used as a showroom. The total cost in the second year is about 250,000 Euros. And the target market share should around 3% of total EU market.

Legal status

In order to put NCpak's sales agency on a proper legal footing, my recommendation is to found it as a separate limited company (B.V.). The registration fee is 18,000 Euro in the Netherlands, while around 3,000 Euros will be the registration cost and the rest are given back later on. (Source: the Netherlands Chamber of Commerce. It manages the trade register. The Chamber's other tasks are to provide Dutch entrepreneurs with information, stimulate regional trade & industry and advise local and regional government. It is incorporated under public law and, as such, targets its services at Dutch businesses across all sectors).

Office requirements

For renting the office, the EU sales agency can start with 100 square meters in the

first year that would be enough for two staffs. Besides office using, they can use the rest as a simple showroom. In the second year, the sales agency need around 200 square meters of office space including a small showroom, which should be enough for 5 employees. Legally one needs at least 9 square meters per employee in Netherlands. The remainder would be used for representative, kitchen and other facilities. About 130 square meters would be used for a showroom that would enable sales agency to service its clients if they would like to see the product in Europe. And it needs a room for a meeting and presentations or workshops, it also can be used a coffee room for daily use.

The location for this office is preferred in the Western part of the Netherlands. This would have the advantages of the best access to logistic and transport facilities as well as to good international staff.

Moreover, there are two options when it comes to the office space, we can either rent or buy. In the case of rent this would be for a minimum of 5 years. The rent cost is usually 100Euro/square meters, and it will cost 10.000 Euros in the first year, (there is a need to sub-rent only one year if possible) and the rent cost from second year is 20,000 Euros (from purchase manager of Zwapak).

Equipment requirements

To support employees, the sales agency need to have desks, computers, telephone, fax, etc. All these working equipments together will cost around 8,000 Euros including some soft wares. Also, for visit some of the client, the sales agency need to purchase cars for salesmen for business travels, which will be able to drive about 70.000 km per year and take sufficient amount of samples if necessary. The first year they can purchase two cars and each one cost around 10,000 Euros (a new one or a second hand).

Staffing qualification

EU sales agency would need to grow in 2 years. It's better to start with 2 employees in the first year, 1 salesman and 1 chief manager. This is the starting and testing period for EU sales agency. These staffs are confident if they are able to deal with the expected volume of business. Start with 2 employees in the first year, and if they are more sales coming, agency can enlarge to 3 salesmen and 2 office persons in the second year.

About individual responsibility and workload division, in the first year, the sales agency need to build a team based on one salesman and the chief manager. Then, the salesman will get necessary support from chief manager for transport support and so on. In order to achieve 3% of the market share (about 100 millions pieces flower sleeves) in the second year, each salesman needs to sell about 33 millions pieces which equal to goods value of 1.8 to 2.5 million Euros. Two office men, a chief manager and one logistic specialist, are responsible for transport support.

The requirements for the salesman will be as follows.

- Fluent in at least 3 languages
- Good education, (University grade, or equivalent)
- Familiar with ERP systems and Microsoft office applications
- Over 3 years of sales experiences
- No 9-5 mentality

It's good to have a flat management structure in the sales agency where final responsibility lies to chief manager. Every decision that is related to clients (orders) and expenditure (over 1000 Euros) will only be made with approval from chief manager of sales agency and NCpak manager team together (Discussion result from general manager of NCpak).

At the beginning stages, it's very necessary to have and pay a competitive base salary to the employees. The sales agency must employ people that are willing to share in the success and growth of NCpak's sales agency'. When this has happened NCpak are willing to compensate them for this success.

Labor contracts and union Issues

All 'NCpak's sales agency' employees will get a starting contract starting with 1 year followed by another contract for 1 year. When businesses are going well and all participants are happy then sales agency can sign a permanent labor contract.

The sales agency doesn't have any union issues that will affect its business activities in the first few years, it is mandatory in the Netherlands to have a works council when one has over 35 employees.

Logistics and flow inventory

In order to decrease sales agency cost and shorten the setup time as well as overheads (fixed costs) it's better to initially choose to outsource its logistics to a third party for at least 3 years. Logistics and warehousing are not core business of the sales agency, a third party is able to offer superior service at a better cost. By outsourcing these activities 'sales agency' will be able to focus its effort on growing market share.

Furthermore, the best is to limit to use the warehouse and have flow inventory. That is, the goods will be delivered from China to Rotterdam port or other EU port from where the goods will directly sent to clients. By doing this, NCpak doesn't have inventory buffer which means work efficiently and cost reduced.

In summary, the following two tables are budgets of the investment for the EU sales agency in the first two years:

Table 3 First year investment/cost of EU sales agency

Category	Cost
Legal status	3,000 Euros
Rent offices	10,000 Euros
Office equipments	5,000 Euros
Running cost	5,000 Euros
Car	20,000 Euros
Labor	90,000 Euros
Total	Around 133,000 Euros

(Source: Yan Xiaoyang, 2008)

Table 4 Second year investment/cost of EU sales agency

Category	Cost
Rent offices	20,000 Euros
Office equipments	5,000 Euros
Running cost	5,000 Euros
Car	20,000 Euros
Labor	200,000 Euros
Total	Around 250,000 Euros

(Source: Yan Xiaoyang, 2008)

4.4.8 Gross margin and the potential profitability

General sales planning

In this case, NCpak (the author has discussed with general manager of NCpak) mentioned they would like to invest and develop the EU sales agency if it is feasible and profitable, and become its chain leader. In short term, it solves the problem of export rapidly declining; moreover in long term, it starts to step forward to develop its sales channel and access to the market and clients.

Before discussing margins, the first is to set up sales target amount. NCpak is a factory which can produce annually around 200,000,000 pieces of flower sleeves so far. In the first year , the target sales amount is set about 30 million pieces, which is 1% of total EU market share and about 2% of target big and middle size clients' total consumption. And the second year, the target sales amount should around 100 million pieces, about 3% of total EU market share and 6% of total target group market shares.

Added margins

Price of each 1000 pieces ranges from 15 to 45 Euros (price in Chinese factory), and final sales prices in EU market range from 30 to 100 Euro per thousand. If NCpak sells directly to EU clients, in this situation, the table below shows several examples about costs and added margins:

Table 5 Examples of different costs and added margins in flower sleeve supply chain from Chinese factory to final EU client

Cost by Category	Price in Euro	Price in Euro	Price in Euro	Cost price in %	Total value in %
Sales price factory China	20.000	30.000	40.000	63%~84%	49%-72%
Sea freight (4000)	4.000	4.000	4.000	25%~8%	10%-7%
Import duty Europe (6%)	1.440	2.040	2.640	6%~6%	3%-5%
EU terminal Handling	500	500	500	3%-2%	Around 1%
EU inland trucking costs	800	800	800	2%-1%	2%~1.5%
Costs price in store (sub total)	26.740	37.340	47.940	100%	67%-87%
Margin added (usually about 15%~50% of cost price)	+13.370 (50%)	+11.202 (30%)	+7.191 (15%)		33%~14%
Selling price to client	40.110	48.542	55.131		100%

(Source: Yan Xiaoyang, 2008)

Above table based on a 40 feet container, about 1.5 to 2.3 million pieces flower sleeves (price in Euros) from China to EU market. By setting up sales agency, all the extra charges from Chinese Export Company and the Netherlands Trading houses are saved. If goods are export through Chinese agent, they will also charge a certain extra added value, estimated at 1%~4%.

Based on value added and cost shares, NCpak can add from 15% to 33% as margin in case of setting up its own sales agency in the Netherlands. Most commonly, the EU wholesalers added around 25% to 30% (based on cost price) as their margins (profit and cover running cost), if NCpak can supply EU client with margins of 20% (based on cost price), then, the products would be very welcomed by EU clients. (20% of margin based on cost price which equals to 15% of the final sales price.)

As the target sales plan for the first year is around 30 millions pieces, which will result a final sales turnover of around 2.0 million Euros. If the margin is about 15%, the gross profit will be 300,000 Euros. Then, NCpak can expect a final net profit of 167,000 Euros. (300,000–133,000 = 167,000 Euros).

Moreover, if they succeed in selling with these 30 millions pieces of flower sleeves, they already survive and start to be independent. From sub question of 1.5, there is also another 15% of margin for factory, which is also around 300,000 Euros. Together, by setting up EU sales agency, NCpak can expect about a gross margin about 600,000 Euros.

For the second year, the target sales is about 100 million pieces, which equals to 3% of the total EU market (sales turnover of around 6 million Euros). Margins of its sales agency is calculated about 950,000 Euros, minus the investment of 250,000 Euros, there is an expectation of net profit about 700,000 Euros. Again, it will also achieve a margin of 950,000 Euros from being a producing factory.

With the production capacity of 200,000,000 pieces of flower sleeves, if all these production are sold through its sales agency, then, NCpak should has a total flower sleeves turnover will be about 12 million Euros, which will result a margin of around 1,900,000 Euros from its sales agency. Also, another 1,900,000 would be the margin as the producing factory.

5. CONCLUSION AND RECOMMENDATION

5.1 Conclusion

The European Packaging market is expected to keep growing, and the European flower sleeves market is big enough for NCpak. Meanwhile, the Chinese flower sleeves producing factories have the similarities like cheap labor, high raw material cost, similar producing technology from Taiwan and mainland, lack of unique/core competence. As a result, most of them compete with each other by lower down the product price. Because of price war competition, to be only as an outsourcing factory is not reliable for NCpak in the long run. To avoid only being flower sleeve producer and remove the high dependency on EU wholesalers, NCpak need to a step forward and access to EU market to survive.

For company like NCpak, the best solution is to develop its own oversea sales agency. By running the major supply chain functions and activities itself, NCpak solve its sales bottleneck and its business performance will significantly increase by free itself and being its chain leader. NCpak must aim to manage its own chain/channel to gain advantages from the actions of its activities, profiting from shortening the chain and take advantage from the avoidance of extra added costs (including their profits) because of other chain actors. This requires NCpak to accept conflicts like facing the competition since it is inevitable in a network and is a source of change.

With analysis in former chapters, obviously, the whole market is under control by EU wholesalers. They have the biggest bargaining power because of being in the market, having client database, sufficient (Dutch) logistics support. While there is no partnership among the EU flower sleeves producers, wholesalers and retailers. Each of them has individual purchases and sales strategies and seeing others as competitors (limited communications).

NCpak can access to EU market by developing its own EU sales agency (in the Netherlands). NCpak can engage more activities and functions in its supply chain, setting up an EU sales agency in the Netherlands. Dutch logistic support has offered many EU flower sleeve wholesaler the advantage to service the market, NCpak can also benefit from it and outsource its EU logistics activities.

It is feasible to set up its own EU sales agency (the new supply chain to EU market) because of the following reasons: first, it's legal for NCpak to start a sales agency in EU (the Netherlands); secondly, NCpak has the financial capacity to invest (discussion results with general manager of NCpak); thirdly, NCpak can outsource

Dutch logistic support for custom clearance, pay import duty and do the inland transport; fourthly, without big obstacle or strategic antiforeigner alliance from EU competitors, it's a nice moment for NCpak to set up its EU sales agency and access into the EU market; last but not least, the EU market information (competitor, market, clients) that collected and interpreted in the previous chapter affords NCpak with sufficient support.

Being aware of internal strengths and weaknesses, external opportunities and threats, of NCpak, it can have the following strategies to choose:

- 1) Setting up its own EU sale agency or develop a cooperation with EU players, so as to have its own channel and being an EU player and build its brand name
- 2) Selecting target group between core clients and smaller clients or both, build client data base
- 3) Employ experienced EU employees to access EU market easily
- 4) Outsourcing the Dutch logistics support and import service (choose the company those who has Dutch import license and also can handle all the import activities and inland transport)
- 5) Figure out the right price strategy and prepare for EU competition
- 6) Adapt to new technology and innovation for production if necessary.

The profitability depends on the success of EU sales agency. And the success of EU sales agency depends on its strategies on selecting the target client group, setting gross margin (15% of sales price for example), supply client service. Furthermore, the salesmen's capacity, competitive price and quick lead time will facilitate the success of EU sales agency and result in good profitability.

While the EU wholesalers and retailers has a gross margin from 25% to 30% (based on cost price). And most of the wholesalers are big companies with over hundred employee and service all the client segments (include around 100 big and middle-size clients and more than 10,000 smaller clients). Nonetheless, the smaller clients are the big constraints for them which have involved lots of workload (Detailed information are indicated in 4.1.2 Final EU client characteristics).

Being aware of client trends, especially the smaller orders from smaller size client, to select the strategic EU target segment is also a priority. The author has interpreted that by selecting the core/big 100 clients (less the 1% of total client amount but consume around half of the total EU market consumption), NCpak can fully satisfy its production capacity (maximum 5~6% of total EU market consumption) and gain market shares in coming few years, also with less workload.

Planning a testing year to start can lower down the risk. As the author described sub chapter 4.4.7 and 4.4.8, NCpak can expect a total gross margin of 600,000 Euros in the first year (achieve of 1% of EU market share, and sales amount about 30 millions pieces of flower sleeves) if succeed, and the total gross margin will be about 1.9

million in the second year (achieve 3% of market share).

In conclusion, it is feasible and profitable for NCpak to develop a new supply chain through establishing its own EU sales agency. NCpak can access to EU market, through local presences, marketing promotions, become a better and more effective service provider bases on competitive cost price. Setting up its own sales agency in Europe is the best way to serve NCpak to hold the market channel in hand, thus gain a solid position on the European market. Besides obtain reasonable profit it will also build its NCpak brand name and clients' awareness, which is intangible asset for NCpak in long-term run.

5.2 Recommendation

5.2.1 Advantages and reasons for the new chain

Starting now would give NCpak the advantage over its Chinese competitors(factories) by taking the lead and thus expanding in Europe. If other Chinese companies try and follow later on, they will have to deal with NCpak's position in the market and they will find it much harder to grow. It's obvious that there are chances in the current market. And NCpak can take advantage of it, as there are few players who can provide quality products from source with a competitive price.

There are several reasons for NCpak to set up its own EU sales agency: firstly, to remove the dependent situation with EU importers and wholesalers, who always make NCpak in a negative situation and face high pressure while EU players choose NCpak's competitors. This highly dependency can easily damage NCpak in case of price war, which is the most popular competitive strategy welcomed by many Chinese factories.

Secondly, with the EU sales agency, it's valuable for NCpak to access the market and market information. Being a big OEM factory (an outsourcing company), just like a blind giant without knowing where to go and what to prepare. If NCpak can access market information, it would benefit a lot from strategic stock and marketing forecasting, also, this will become one of the core competences than any other competitors.

Thirdly, use the new chain to build its access to EU market and build brand name. NCpak has been playing as an OEM (original equipment manufacturer) factory for EU importers and wholesalers about ten years. It has both the production and technology capacity, that's why it is growing very fast much bigger, all this make it possible to build clients awareness and its brand name.

Fourthly, it means the invest capital will rotate more frequently and efficiently. By directly access to EU market, NCpak can have a lead time of around 6 weeks instead

of average lead time of 8 to 10 weeks, their financing period(indicated in 4.4.1)will reduced.

Last but not least, by using this new chain to achieve big profit and survive(indicated in 4.4.8). All these together make it a must to take step forward and access to EU market by itself as soon as possible.

5.2.2 Establish the new supply chain

The following flow chart is the flower sleeve supply chain from China to EU market. These Blue blocks are the functions (Intermediary function in this case are gapping between Chinese factory and EU wholesalers), rest are actors in the chain:

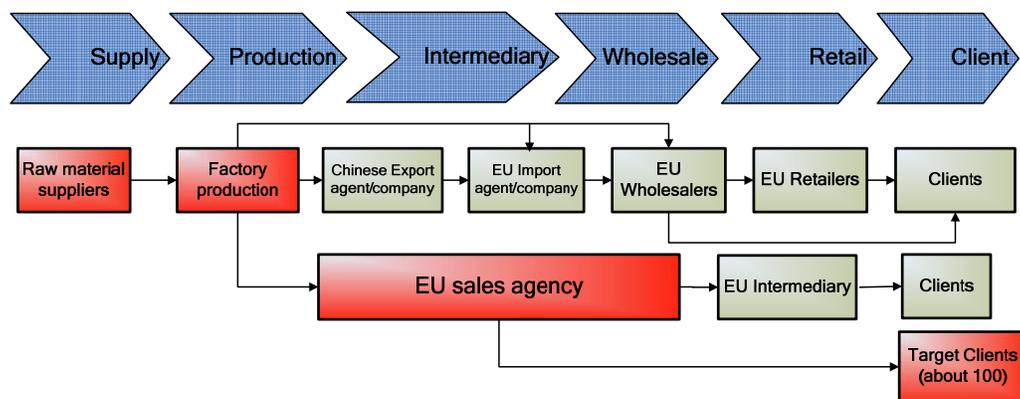


Figure 12 Recommendation of new supply chain for NCpak to access to EU market (Source: Yan Xiaoyang, 2008)

Red blocks and arrows (from raw material supplier to factory, then to EU sale agency and target clients) is the recommended chain for NCpak, and grey blocks are also business opportunities to catch. Then, the new recommended chain mainly include raw material suppliers (here are BOPP film suppliers), and NCpak (flower sleeves producer), the third important party is NCpak’s sales agency in the Netherlands, and the last vital one is client.

The vital target clients are about 100 in total and most are big processors, packers and growers. NCpak can select them as the main sales target group. Concentrating on even a few big clients achieve a reasonable gross margin by sufficient communications, supply good service and attract them as loyal clients. Besides this target group, if possible, the sales agency can also supply to the intermediaries (EU flower sleeves producers, wholesalers or retailers), especially with volume of goods to retailers where goods are stocked and delivered to small clients. By doing so, NCpak can better enter into the market and also build its own sales network.

Because of new designing, besides NCpak’s production and financing functions, it integrates activities and functions as the EU importers and wholesalers do. As a result,

functions like collect marketing information, promotions and sales, logistics, and so on will be responsible for its EU sales agency. (In sub chapter 4.4.6, detailed answers are answered specially about functions and activities of its EU sales agency.)

The best place for the EU sales agency is to locate in the Netherlands. The Netherlands is not only one of the biggest flower sleeves processing and trading market (flower harbor for whole Europe, and with big flower consume countries UK, France and Germany around), but also it has good logistic support and located in the central of Europe. This would offer the sales agency with two advantages, which are close to market and easily access to logistic supports service.

The sales agency should be managed by passionate professionals, who are driven by cost cutting, competence in sales and familiar with logistics. Then, the EU sales agency can establish a profitable company with satisfied and loyal clients located all over Europe who are willing to pay a reasonable price for quality products.

5.2.3 New process flow

In the proposed situation, the wholes process of NCpak and its new chain have the following 8 steps:

- Share of NCpak factories' information and market demands
- NCpak's sales agency finds clients and sign contracts
- NCpak factory start to produce (mould design, print, cut, seal, pack, etc)
- Delivery CIF container to Rotterdam (or other EU port)
- NCpak's Sales agency outsource company to pay import duty and arrange EU inland transport
- Third party delivers goods to client
- Client received goods and doing payment directly to NCpak
- Sales agency collect feedback and new orders from clients

Following these 8 steps, NCpak's EU sales agency is actually an engine for its production. Being aware of NCpak factories' information, then sales agency find and sign clients' contracts. Then, factory starts to produce request products and packs them. Later on, transport department sourcing the reliable and cheap freight and CIF deliver to Rotterdam port or other EU port that next to clients. While the freights are on sea, sales agency outsources the transport company. When containers arrive to Rotterdam port, sales agency will pay for import duties and announce the third party to transport goods to clients. Lastly, clients received goods and doing payment directly to NCpak, also during this stage, sales agency should collect clients' feedback and new orders.

Clear communication, transparent information and quick response are the key issues to obtain success under this circumstance. The clearer the communication, the better they benefit. English will be the main communication language among salesmen and NCpak's production manager. The amount of NCpak's BOPP film stock will rely on

market forecasting to decrease or increase; production techniques and machines will be improved or replaced according to market trends that are acquired by sales agency; logistic information must be clearly defined so that both plants and EU sales agency can check what's going on; NCpak's production situation and reserved capacity information need to be frequently shared with sales agency.

5.2.4 Financial Planning

Setting up an EU sales agency is a long-term planning, it's better to think it over and choose the sustainable and profitable proposition. The sustainability and profitability depends on the quality and competence of sales team.

At least one testing year, with 2 employees and invest around 130,000 Euros, is very necessary. The success parameter is relying on whether they can have 1% market share or achieve a margin around 200,000 Euros. Then, this is so-called sustainable and profitable. In the second year, NCpak can choose to enlarge the sales team with 3 salesmen if they succeed in the first year. For sure the investment would be higher in the second year, it would be around 250,000 Euros. (described in sub-chapter 4.4.7 and 4.4.8)

For payment terms on contracts, the sales agency should try their best to use the collecting of its creditors as soon as clients receive goods (depending on the contract and clients). Second option is to choose 30 days of L/C (letter of credit) payment in Euros. Contract will be signed directly between NCpak and clients, as business goes on, possible payment terms like T/T (Telephone transfer) will be appreciated.

It also needs to use the services of a part-time external accountant who has detailed knowledge of both Asian and European tax laws in order to maximize NCpak's return. There are several advantages, first advantage is that NCpak's sales agency does not have to chase money (waste sales agency limited labor force and capital). Moreover, it can thus release sales agency's time and works on servicing and bring in new clients. This will be of particular advantage when dealing with big size clients (target group that mentioned above). Thirdly, this strategy will as well as improve cash flow and capital will be efficiently rotating using by NCpak for purchasing raw materials and so on.

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Appendices

Annex 1. Interviewees and issues to discuss

Producer from China

Sun Ho, General Manager, NCpak Ltd.

Wing Ho, Export Manager, NCpak Ltd.

Darius Long, General Manager, Welpack International HK, Ltd.

Issues: business history, turnover, financial capacity, production range and capacity, raw materials resources/substitute materials, production process, orders process flow, CIF, payments term, delivery time, business network, Chinese competitors, numbers of EU clients and their requests, opinions about chain integrations and market entry methods, cooperation, support organizations, etc.

Exporter agent/company from China

Carl Li, General Manager, Xiamen Green Import & Export Ltd.

Issues: Chinese flower sleeves producing companies (numbers, names, quality,), CIF cost, commission fees, export documentations, lead time, payment terms, Shipment Company, etc.

EU Producers and Wholesalers

Robertjan van Beek, Purchase Manager, Wentus BV., Germany

Steen Bødtker, General Director, Elmer Print A/S, Denmark,

Robert J. Field, Managing Director, Turner Langdale Limited, UK

Issues: outsourcing (raw materials) companies or countries, flower sleeve product price, sales market, total sales turnover, cooperation, EU competition and competitors' information, customer-made service, flower sleeve sample, quality level, lead time and logistic support and cost, stocks, support organizations, influencers, etc.

EU importers and/or wholesalers and/or retailers

Rody Kortekaas, Purchase manager, Zwapak BV

Marcel Van Kempen, Former Managing Director, Zwapak BV

Mark de Krosse, General Manager, Van Dillewijn Group BV

Arjan Broekhof, Sales Manager, Broekhof Verpakkingen BV

Jan van Bergenhenegouwen, Sales Manager, JBB pack BV

Issues: products resources and order quantity, outsource strategy, product purchase price(margins), sales market, client amount, total sales turnover, cooperation, EU competition, supporters and influencers(taxes, policies, banks, import duty etc.), competitors' information, stocks, customer-made service, flower sleeves samples, lead time and logistic support(CIF) and cost, etc.

EU Retailers

Soren Hojsgaard, Purchase Manager, Flora Marketing APS

Thomas Holwerda, Sales Manager, Horti Print A/S

Issues: products resources, product purchase price (margins), order/batch size, client amount, total sales capacity/turnover, sales market, cooperation, competitors, stocks, customer-made service and communications, lead time and logistic cost, etc.

Client: Big packer or Growers

Hans Mulder, Logistics director, Intergreen BV, the Netherlands

Preben Damm, Managing director, Kaerby, Denmark

Anders Beck Larsen, Managing Director, Gartnerierne Ove Nielsen, Denmark

Issues: annual consuming amount, delivery time requirement, customer-made service from its suppliers, product purchasing price, quality and sourcing companies,

EU New entrant

Andy Zhang, Sales, Horti International Trading Co., Ltd. China & NL

Issues: order inquiry (price level, customer react time, product source, lead time,etc.), cooperation, EU competitor information,

Annex 2. Permission to use

NCpak (Sun Hing Plastic Bag Company)



TO WHOM IT MAY CONCERN

Shenzhen, July 2008

NCpak (Sun Hing Plastic Bag Company) is a Hong Kong enterprise, based on Shenzhen City, Guangdong province, China. With an annual turnover of USD 60 million, the company employs over 500 people and has been founded over ten years. We have awarded ISO 9001 for high quality and excellent factory management and we specialize in various plastic bag production and flower package production.

We are recommending Xiaoyang (David) Yan, who is in the process of preparing his final Master thesis for the Agricultural Product Chain Management course at Van Hall Larenstein, Wageningen, the Netherlands. He has chosen to study the topic of chain integration by NCPAK on flower sleeves in European market.

We kindly ask you to assist David in his effort and wish to reiterate that the information collected for his thesis will not be made public, other then (as a possible reference) in the final thesis. Similarly, David will not be in a position to disclose any of his findings about the NCpak position in this respect to you, for which we ask your understanding.

Yours,
Sun Ho, general manager