

Doing business with china

Business



China is the fastest growing battery manufacturing market in the world. Overseas companies desiring to hit into this remarkable prospective should recognize the development and impact of the Chinese battery industry, which companies are working in this industry, different issues and challenges with opportunities and ways of accessing into local market. The battery industry in China is driven by global development of innovative products which need long lasting energy source.

The important aspects of these products is easy to adapt in many segments of the market from business to commercial and individual basis, Foreign companies using eatories for their products are outsourcing their battery source to Chinese companies therefore have dominated the market Internationally. There are many challenges facing in this industry. Inadequate employment with health and safety issues, infrastructure and standardized product so many battery manufacturers battery manufacturing companies located even within the same area.

The mode of entry for a foreign battery firm is to either establish a wholly owned subsidiary or joint venture. There is no one clear answer for best mode of entry, each method has its own merits and should be evaluated individually. Firms that can introduce some type of disruptive technology such as off-shore/near-shore or custom design have an advantage in competing in an already saturated market.

There needs to be incentives for battery manufacturer to upgrade infrastructure especially human resource, working environment and research and development as it is a major bottle-neck for industry as a whole. This

can partially achieved through training and education and more investment from the state or international collaborations. Trade barriers for foreign firms should also be further reduced to promote a healthy market. There is still great opportunity for foreign entrants in the Chinese battery market despite its challenges.

Foreign battery manufacturers must first consider all aspects carefully before deciding to enter into the Chinese battery market especially hire a local or well-known consultant to guide and tackle local business issues. Introduction Today the advancement of technology has moved a leap and produced innovative ideas in the form of smart products one basic example is electric vehicles which will be definite to dictate the future automotive market.

Similarly the example of smart hones, someone said today's notebooks we are using are more powerful than the computer used by NASA in their first moon voyager however all these different products have common need to stay alive to serve us which is called Lie-ion battery, as the core component of electric vehicles, smart phones, musicplayers you name it where ever any rechargeable battery is being used is vastly replaced with Lithium ion batteries. During research of this report I came to know about the benefits of Lie-ion battery industry in Chinese manufacturing frame which can be exposed from three facets: firstly, the low manufacturing cost.

China assertions of generous cost-efficient labor means, this is the reason which has made it conceivable to hire labor- intensive and semi-automatic production line to decrease the cost. Chinese Lie-ion producers have made innovations in technology and enforced Lie-ion battery value in worldwide

market to drop in current times, further China has the world's largest community to consume, and lastly, China has industrialized a fairly complete Lie-ion battery industry chain. BODY, which is the biggest Lie-ion battery manufacturer in China, holds 02 different business streams, one automobile and second IT spare arts.

The IT spares market is mostly included with secondary rechargeable battery business and cell phone components & assembly service. Since 2009, automobile has become the prime business of BODY, and the battery for electric vehicle can be fully self-sufficient. Until now, " BODY is the only local initiative to have the mass-production technology of Life battery pack for electric vehicles, holding the leading position worldwide". (BODY website) " Further to these other companies like China Banana Group which is the biggest producer of anode materials in China, while Inning Shannon Co. Ltd is China's leading supplier of cathode materials.

In cooperation with TODAY KOOKY Corp.. , Inning Shannon Co. , Ltd has developed an advantage in technology to produce anode material, and gained cost advantage by The Chinese Battery Industry's Impact on the World Market Figure 1 Types of Battery Source Deutsche Securities Inc. The influence of Chinese manufacturing particular to battery industry can be analyses first understanding the global industry size. Later we will review the Chinese industry from strategic perspective. Defining Battery industry Batteries are an essential portion of our normal daily usage, connect and supply electric power to the most complex machines.

The idea behind the battery, the conversion of chemical energy, through a controlled chemical reaction, into electrical energy, was pioneered by Alessandro Volta in 1792. ¹ This seemingly simplistic invention set the stage for a revolution that transformed electrical energy through mobility and convenience. " Batteries can be defined into two categories: primary and secondary. " ² Primary batteries are sometimes called " throw-away" batteries because they will be discarded when they are flat, as they cannot be recharged for reuse. Common types of primary batteries include alkaline, zinc carbon, lithium, silver oxide and zinc air batteries.

Secondary batteries can be recharged and reused for up to 1000 times depending on usage conditions. Common types of rechargeable batteries include Nickel Metal Hydride (NiMH), Nickel Cadmium (NiCd) and Lithium Ion (Li-ion) batteries". Figure 1 above shows the general streams of batteries with its types. Drivers of battery industry growth Due to the elevating penetration of electronics and information and communications goods, both the demand for and output of the secondary battery now far exceed those of the primary battery. The nickel-cadmium battery is the oldest one with development over the time, and once its demand exceeded billion units.

However, due to the memory effect of nickel-cadmium batteries and their hazardous effect on the environment and the human body, its production was gradually superseded by nickel-metal hydride batteries. The nickel-metal hydride battery, while having a more diminutively minuscule memory effect and the same operating voltage as a nickel-cadmium battery, has a higher capacitance than the latter. Manufacturers of products of mobile

miscommunication and portable electronic goods had to shift to utilizing nickel-metal hydride batteries.

In recent years, however, secondary lithium-ion batteries in turn came to supersede nickel-metal hydride batteries because of the ordination dictation for ever lighter and thinner electronic products. Figure 2: Shipment of three kinds of secondary battery world-wide (million PC's), Source EX. Energy Trend Lithium batteries have profits in that they yield a high working voltage, have big reserves, and are lightweight, rechargeable, long life, amongst other advantages. Hence they have been increasingly used in electronic reduces. Figure 2 and figure 3 shows that how the demand of Nice, NiMH and LIB the race and was high in demand.

With this there was very slight variation in demand for Nice and NiMh type of batteries from year 2002 up to 2008. In 2009 secondary battery production worldwide greatly surpassed primary battery production and that lithium battery accounted for 42% of secondary batteries. Figure 3 Primary and Secondary battery production worldwide Manufacturers rushed into the field of lithium electronic products, causing overproduction and hence a gradual decline in the profit margin. A major change in cent years saves them from cut throat competition however.

The need to reduce dependence on oil has promoted the development of electric vehicles with low (zero) fuel consumption, and which has created a growing demand for lithium batteries (figure 4). According to estimates, a pure electric vehicle requires 40 to 50 keg of cathode materials and electrolyte, which is about 10, 000 times that of single mobile phone battery

consumption. To produce 1 million electric cars driven by lithium-ion batteries will require a total amount of related raw materials several times the current world's aggregate demand.

Figure 4 LIB battery main material trend Share of Countries Japanese makers dominated the lithium ion secondary batteries (LIB) market for decades since Sony produced and sold the first Lib in the world in 1991. Japan has controlled over 90% of the global Lib market in 2000, however, the growing competition from Korea and China is underestimated. By 2008, the share of Japan companies have reduced to 48%, while the Korean maker had secured 22% of the US \$8. Billion global market and the China companies such as BOYD, BYD and LG Chem had grabbed 19%.

Japanese share had further fallen to 41% in 2010 and the market share of Korean vendors Samsung SAID and LG Chem. had increased to 35% (see figure 5 and 6). Battery Industry in China Figure 5 Global Lib Market share 2010 China has become the world's biggest battery manufacturing power (including chemical and physical battery); its current battery production and exports are highest in the world. In 2009 China's production of chemical batteries reached 33.5 billion units, which exceeded half of the world's production.

In the same year China's battery industry (including chemical and physical batteries) totaled more than 4,000 companies with a workforce of more than a million. The lithium-ion battery industry in China is mainly concentrated in the Pearl River Delta, Yangtze River Delta and the Bohai Bay area (figure 5). Lithium ore resources are mainly distributed between Chuan and Axing,

Gaining and other places. The Pearl River Delta region is an important lithium-ion battery materials and assembly production base, with an annual output value of more than 9.7 billion Yuan million, accounting for about 35% of the industry nation-wide. This is followed by the Yanking River Delta (including for about 27% of the country's output. The Boohoo Bay area, including Beijing, Tannin, Huber, Loaning and Sandhog etc, comes third, reaching 4.56 billion Yuan in annual output value. Figure 6 China Lid battery industry map Figure 6 China Lid battery industry map According to figure 6 today above 40% of worldwide lithium-ion secondary battery manufacture is now in China, while another half is produced by Japanese and Korean domestic manufacturers.

Panasonic, for example, until before the 311 Great East Japan Earthquakes of 2011, had eight lithium battery factories in Japan, with production of lithium batteries ranging from 80% to 90% of its total output. After the earthquake, Panasonic promulgated the closure of four of its Japanese plants in 2012 and that it would invest IIS\$ 720 million to found a new lithium battery factory in Ouzos, China, so as to increment the output share in China from the current 10-20% to about 50% in three to four years' time. Sony withal promulgated that it would move its domestic production line to China and Singapore before the cessation of March 2014.

China's fiercely business cordial environment and cheap and high quality labor determines that the global lithium-ion battery manufacturing perpetually shifts to China. Table one below shows the trend. It withal shows a declining export ratio of lithium-ion batteries, indicating that China is not only becoming a major battery producing country, it is withal emerging as a

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major consuming country Figure 7 China's lithium-ion battery production by output and by share, 2005- 2010 source Deutsche securities China's competitive edge as a production base of batteries can be illustrated by the example of BODY.

It turned the expensive Japanese automatic production line of lithium batteries into a human assembly line packed with tens of thousands of workers (called 'human-based automation'), drastically reducing costs. The chairman of BC Battery, If Quant, once told reporters that while the Japanese assembly line cost 83 million Yuan, its Chinese counterpart only cost 3 million. According to the study by Peregrine, for BODY, each unit of lithium batteries only costs it IIS\$ 1. 3, while for Sandy it costs US\$ 4. 9.

Competitive Structure Some of the relatively large Lithium battery manufacturers in China such as Sheehan B; K, Sheehan HOBBY, McCain, Shanghai TOMB, GASLIGHT, REDRAW, YOKE and so on. The average battery positive materials consumption of those manufacturers is about 20-50th/m. Some famous Lithium eatery manufacturers such as East Electron (Auk), YOUNGLING Battery, DECAYS Battery, the average battery positive materials consumption of them is about 10-20th/m. The rest of Lithium battery manufacturers are small enterprises which with less competitiveness in 100 domestic lithium battery manufacturers.

As we know lithium battery is one of high effective battery with great performance so far, it's potential safety hazard can't be ignored because more and more complaints even litigation to international lithium battery magnates including SANDY, SONY, Panasonic and LEG which caused heavy

brow in lithium battery industry. As the safety requirement and hard to access even for large domestic lithium battery manufacturers. Below table shows the industry competitive analysis of Lithium battery with current situation of the company: (source [www. Hennaing. Com](http://www.Hennaing.Com), 2012) BODY (a private enterprise Hong Kong listed company) | Second largest Lie-ion Battery manufacturer in the world. Main business activity is mobile phone battery manufacture. Haven't enter the cylindrical Lie-Battery market yet but accessed to almost famous mobile phone companies in the world. Although the BODY mobile phone Lie-ion Battery is still in velveteen stage, BODY plans to become the largest mobile phone Lie-ion Battery manufacture in the world.

MGM | The power Lie-ion battery production capacity in 2008 was 20 million Ah and reached to 100 million Ah in year 2009 | BACK (Private Enterprise NASDAQ Listed Company) | One of the largest Lie-ion Battery manufacturers in the world. Its production capacity reached to 300 thousand units in 2008. Relied on capital finance support, BACK expanded rapidly in 3-4 years. The Illicit consumption of BACK is about 1 50-20th/m. BACK mainly had been giving up the low-end steel cased battery production but driving away at product upgrading.

The key production line focuses on aluminum cased Lie-ion Battery and key customers are domestic mobile phone manufacturers. Recently BACK imported a completely automatic production line of cylindrical Lie-ion battery for target customers such as laptop battery manufacturers in Taiwan (Battery assemble MEMO). The cylindrical Lie-ion battery products of BACK is still waiting for chance to corporate and access into international laptop

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manufacturers | Listen (a Joint venture company invested by Tannin Jigging Investment company and others) | The Lie-ion Battery production capacity in 2008 is 250 units.

Its reduction facilities and equipment's are imported from Japan and key customer is MOTTO. Although the investments of LISTEN is huge, the tough system problem of organization obstructively affected the development of LISTEN | Winston Battery (Private enterprise) | The Power Lie-ion Battery production capacity in year 2009 was 15 million Ah | CACM | Its parent company is An allotment bazaar Listed compensate anticipated Lie-ion Battery production capacity in 2009 is 80 million units. | TCL Hyper power Batteries | Its parent company is An alternator's Listed Compartmenting polymer Lie-ion Battery.

The power Lie-ion Battery production capacity in 2008 is 60 million units. | PILLION (A Joint venture company invested by Legend Capital and CASE) | The anticipated Lie-ion Battery production capacity in 2007 is about 3.6 million Ah. | TTL (Subsidiary company of TAKE) | After the M&A by TAKE, TTL accelerated the business development rapidly in recent year. TTL is a Joint venture company with independent polymer technology invested by professional manager and PVC. The key supplier of TTL is SHANNON and begins to Join as the strategic partner of TTL. | Major players in this industry of china nominated by China, South Korea and Japan.

As shown in figure 7 the three countries have different advantages in the market competitions, and the pattern will maintain a considerable period of time. China's Li-ion battery output is growing year by year, reached 1875

million units in 2009, up 82% year on year, and reached 306 million units in the first two months of 2010, equivalent to 16% of the total output of 2009.

Figure 8 China Output of Lie-ion Battery, 2008-2010 BODY Founded in 1995, BODY Company Limited (hereinafter referred to as " BODY") is a private-owned high-tech enterprise listed in Hong Kong.

At present, BODY has established 9 production bases in Gudgeon, Beijing, Shania, Shanghai, etc. With the total area of about 7 million mm; moreover, the company has branch offices in USA, Europe, Japan, Korea, India, Taiwan, Hong Kong, etc. And the employee number has exceeded 0. 13 million. In 1997, BODY started producing Lie-ion battery through independent R; D, and soon after that, BODY started mass production. In August, 2003, its Shanghai factory went into operation, starting the R; D of power battery and computer battery.

The two major business scopes of BODY include auto and IT spare parts, of which, the latter is composed of rechargeable battery and mobile parts ; assembly service. Year 2009 witnessed the rapid recovery and outstanding performance of Chinese auto market, therefore, auto business became the main source of revenue and profit of the Group in 2009. BODY has officially launched its FAD dual-mode car loaded with the independently developed lithium iron phosphate battery. It is the only domestic enterprise who masters the mass production technology of lithium iron phosphate battery for automobile, taking a leading position even worldwide.

Sneeze BACK Battery China BACK Battery Co. , Ltd. Abbreviation " China BACK", NASDAQ: CUBA) is one of the largest manufacturers of Lie-ion battery

cells. The main business of the company is to manufacture and sell Lie-ion battery cells to mobile phone battery manufacturers and first-grade manufacturers. At present, China BACK is the largest Lie-ion battery manufacturer of mobile phone substitute battery market with the market share of 60%. Its recently expanded product types contain high-energy lithium iron phosphate battery applied in wireless power tools, hybrid electric vehicle, and medical devices.

China BACK also produces Lie-ion polymer battery used in portable personal electronic vices such as digital media equipment, portable media player, portable audio player, portable game devices, and Pads. Recently, the company has absorbed cylindrical battery production line to produce laptop battery. The 1.9 million square feet factory and equipment of China BACK is located in Sheehan, and the monthly output can be 22 million batteries or so. China BACK develops its business through 2 wholly-owned subsidiaries in Sheehan. Sheehan BACK Battery Co. Ltd. , one of the subsidiaries established in August, 2001, is engaged in the development and manufacturing of square cells, cylindrical cells, and lithium iron phosphate cells. BACK manufacturing Lie-ion polymer cells. The products of BACK are Lie-ion battery cells. Lie- ion battery is usually composed of shell, cell, and circuit protection Devices of recharge ; discharge, etc. , of which cell is the core component of Lie-ion battery. A large number of domestic Lie-ion battery enterprises apply imported cells in their Lie- ion battery assembly.

Opportunities ; Challenges of China The Chinese Lithium battery industry despite its remarkable development and growth has several challenges and opportunities. Following are some common industrial issues which are

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written in perspective of US entrepreneurs willing to do equines in Chinese local industrial set up are worth to discuss here: Market Challenges In addition to large multinationals, many of which continue to earn impressive returns on their exports to and investments in China's market, American Seems are very active in China. The U. S.

Department of Commerce's Commercial Service (CSS) counsels American companies to thoroughly investigate their specific market niche, take heed of product standards, and take measures to protect intellectual property, and carefully pre-qualify potential business partners. Stumbling blocks that foreign impasses run into while doing business in China often relate to these broad issues. * China often lacks predictability in its business environment. China's current legal and regulatory system can be opaque, inconsistent, and often arbitrary. Implementation of the law is inconsistent.

Lack of effective protection of intellectual property rights is a particularly damaging issue for many American companies. Both those that already operate in China and those that have not yet entered are well advised to assess their IP risk exposure and develop a plan to mitigate that risk.

Guidance is available at [www. Stoppages. Gob.](http://www.Stoppages.Gob) China has made significant progress toward a market-oriented economy, yet it continues to rely heavily on an export-led growth model. For this reason, parts of its bureaucracy still seek to protect local firms, especially state-owned enterprises, from imports, while encouraging exports. China retains many characteristics of a planned economy, with five-year plans setting economic goals, strategies, and targets. Provincial and local officials are accountable for delivering on the APP and their priorities reflect that mandate. In addition, the State and the <https://assignbuster.com/doing-business-with-china/>

Communist Party directly manage the only legal labor union. The scale and complexities of China can stress a firm's capabilities, resources and patience. Well-targeted and informed efforts and a network of contacts at various levels across a broad range of organizations are often linked closely with market success and ability to resolve problems. As the lithium iron phosphate technology is not yet mature, and the requirements on the manufacturing process are high, there is currently no lithium iron phosphate electric cars put into mass production. In the next three to five years, the Li-ion batteries with lithium cobalt oxide, lithium manganese oxide, nickel cobalt manganese lithium and lithium iron phosphate as anode materials will coexist. China's Li-ion anode material production capacity is about 35, 000-40, 000 tons, basically focused on the production of lithium cobalt oxide, lithium manganese oxide, and nickel cobalt manganese lithium.

At present, manufacturers with lithium iron phosphate production plans and experience in the BYD Company Limited, Puled Technology Industry Co. , Ltd. , and Jinxing Green New Energy Material Co. , Ltd. Market Opportunities China will remain an important and viable market for a wide range of U. S. Products and services for years to come. China's on-going infrastructure development, investment in healthcare reform, and booming urban populations will drive demand for U. S. Goods in energy, chemicals, transportation, medical equipment, construction, machinery and a range of services. Branded products supporting lifestyle expenditures show great potential. With growing numbers of Chinese traveling abroad for education and leisure purposes, China's contribution to U. S. Educational institutions and the tourism industry is increasingly important as well. Doing Business in

China There is no one linear formula which can be used to either enter and set up a new business in china or connecting in a sustainable business relationship with Chinese businesses.

However analyzing the factors behind the success stories can lead into the same achievements, following are some of the major challenges for foreign businesses considering starting any such business in china: * The requirement to understand the role of the government * The constancy of change * Regulations and Standards * Authorities * Market conditions * Corruption, PR and rule of law * Increasing economic nationalism Managing control and compliance across the board * Need to deal with local competition and price pressure * Pace and depth of localization * The right organizational structure * Figure 8 Comparison of China with comparators in how ease dirt is to doing business Figure 8 Comparison of China with comparators in how ease dirt is to doing business Corporate Engagement Beside above mentioned points a recent report Doing Business from World Bank sheds light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations. It measures and tracks changes in regulations affecting 10 areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. For new business investors, knowing where the Chinese economy stands in the aggregate ranking on the ease of doing business is useful.

It's useful to know how it ranks compared with other economies below and compared with the regional average also figure 8 ; 9. The economy's rankings on the topics included in the ease of doing business index provide another perspective. Starting a Business Figurer how china ranks on Doing Business topics Starting of a business starts with a formal registration of companies this has many immediate benefits for the companies and for business owners and employees. Legal entities can outlive their founders. Resources are pooled as several shareholders Join forces to start a company. Formally registered companies have access to services and institutions from courts to banks as well as to new markets. And their employees can infinite from protections provided by the law.

An additional benefit comes with limited liability companies. These limit the financial liability of company owners to their investments, so personal assets of the owners are not put at risk. Where governments make registration easy, more entrepreneurs start businesses in the formal sector, creating more good Jobs and generating more revenue for the government.

Recommendation & Suggestion A company should visit China in order to gain a better perspective and understanding of the market potential for its goods or services. Given the scale and vapidly changing nature of the marketplace, a visit to China can provide great insight into the country's business climate and its people.

Chinese company representatives respect face-to- face meetings, which demonstrates a U. S. Company's commitment to working in China.

Prospective exporters should note that China has many different regions and that each province has unique economic and social characteristics. U. S.

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Companies commonly use agents in China to initially create relationships, advise on product standards, perform business development, and offer marketing support. Local agents possess the knowledge and contacts to better promote U. S. Products and break down institutional, language, and cultural barriers. The U. S. Commercial Service offers a wide array of services to assist U. S. Exporters in finding Chinese partners through a network of five offices in Beijing, Shanghai, Shenanigan, Guanoss, Changed, and a partnership with the China Council for the Promotion of International Trade (CAPITA) to provide business matchmaking and related services in 14 other major cities in China. U. S. Companies are strongly encouraged to carefully choose potential Chinese partners and take the time to fully understand their distributors, customers, suppliers, and advisors. Success in China requires a strong understanding of your business capabilities, development of long-term relationships, and an in-depth knowledge of this challenging market. Before making a decision to enter China, potential exporters should consider their own resources, past exporting experience, and willingness to commit a significant amount of time assessing and cultivating opportunities.