

3. Topic of Study

This chapter describes the company where I effectuated my internship between January and July 2010, CBMIE in Shanghai, China. This is the most important branch of one of the biggest enterprises in China in the sector of building materials: CNBM. I was assigned to CBMIE's purchase department and it is that department that I developed my analysis and the subsequent proposal for.

3.1 The Enterprise

China National Building Material Company Limited (CNBM) was established in 1984. It is a 100% government-owned conglomerate and it has been listed at the Hong Kong Stock Market since 2006.

As stated on their website (CNBM International, 2010) in China the enterprise has the largest **cement** and **glass fiber** production capacity and has the competitive advantage in the import and export of glass, ceramic, compound materials and building and environmental materials.

CNBM has established wide relationships with customers from more than 100 countries around the world. The business scope mainly covers the design, manufacturing and sales of building materials, real estate development, consulting, international trade of non-metallic minerals, equipments, as well as contracting, research and development and e-business. In many of the fields, CNBM is playing a leading role in China. The total quantity of employees is around 42,800. (CNBM International, 2010)

CNBM's headquarter is in Beijing (China) and the company has offices in California (US), Dubai (UAE), Tehran (Iran) and Moscow (Russia), amongst others. Figure

3.1 shows the offices and branches (in red) and the operations (in yellow) where this conglomerate has general activities (Ibidem).

Figure 3.1 CNBM offices, branches and operations



Source: CNBM webpage (2010)

As for my experience, in China CNBM is a very hierarchical company where decisions are made at the top and at the consequent levels of high authority.

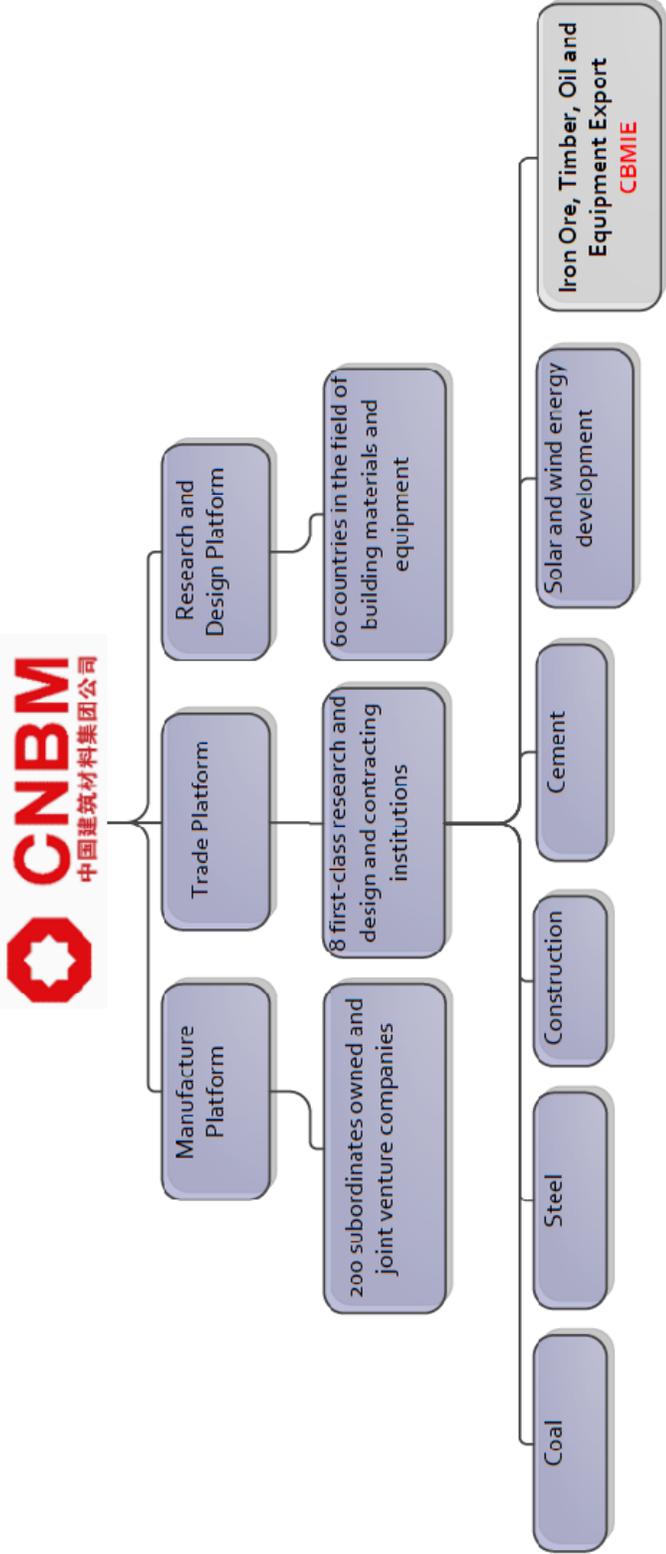
CNBM's corporate structure is shown in figure 3.2. The conglomerate is divided into three main platforms according to its webpage:

- The manufacturing platform: CNBM has 200 subsidiaries, in part joint-ventures and in part wholly-owned subsidiaries. Furthermore there are four publicly listed companies in which CNBM has a controlling stake and eleven publicly listed companies in which CNBM has a substantial percentage of shares. The products of this platform include: building materials (insulation and acoustic materials), hardware for constructions, pipe sections, heating systems and equipment, kitchen cabinets and sanitary

wares, waterproofing materials, ceilings, ceramic tiles, refractory materials, industrial and civil environment protection systems.

- R&D platform: This platform consists of eight R&D and contracting institutions. It has the national engineering research centers, technical centers and testing centers and has contracted and completed many big projects.
- Trade platform: CNBM has established extensive cooperation relationships with over 60 countries in the fields of building materials and equipments. The platform is organized according to the good or service produced, imported and or exported: Coal, steel, construction, cement, solar and wind energy. One of the branches contained in this division is CBMIE, which specializes in the trading of iron ore, timber, oil and equipments and will be discussed in section 3.3.

Figure 3.2. CNBM Organizational Chart



Source: Own elaboration

3.1.1 Competition.

Information obtained from the **Report on China Building Materials Industry 2010-2015**, describes the present situation of the industry and lists the most profitable enterprises categorized into three industries: construction materials, minerals and nonmetallic. In this categorization, we can find **Cement, Fiber Glass**, Construction materials as **Iron Ore, Coal** and **Plastic** amongst others. Considering that CNBM plays an important role in each category, the main competitors are listed next. In the sector of Iron Ore, China represents 63.88% of world inputs and ranks number 1 in the world (Trade Map, 2010).

Distributed in different regions, headquarters are principally localized in: Anhui, Hebei, Hubei, Shanghai and Zhejiang. Every enterprise mentioned is Chinese.

- **Wuhu Conch Profiles and Science Co., Ltd.** is principally engaged in the research, development, manufacture and sale of **plastic** products. The company distributes its products within china's domestic market and has 10 major subsidiaries.
- **Southern Building Materials Co., Ltd.** is focused on the wholesale of **construction materials, energy, machinery** and electronic equipment. The Company also provides **metal materials** and **metallurgy materials**, automobiles and related services.
- **Huaxin Cement Co., Ltd.** is committed to the manufacture and distribution of **cement** and concrete in China domestic market and overseas markets. It has over 30 subsidiaries in China.

- **China Fiberglass Co., Ltd.** is a manufacturer and exporter of fiberglass and has business cooperation relationships with 26 countries as America, Canada, France, Italy, Spain, Poland, Romania, Philippines, Japan and so on.
- **Sinosteel Corporation** is a raw material processing company and the second largest importer of **Iron Ore** in China. It has a wide variety of trading and logistics of metallurgical materials and products and equipment manufacture. The company has iron ore resources bases in Australia and South Africa and is considered as the **major competition** of CNBM in China.

3.2 The Iron Ore Industry

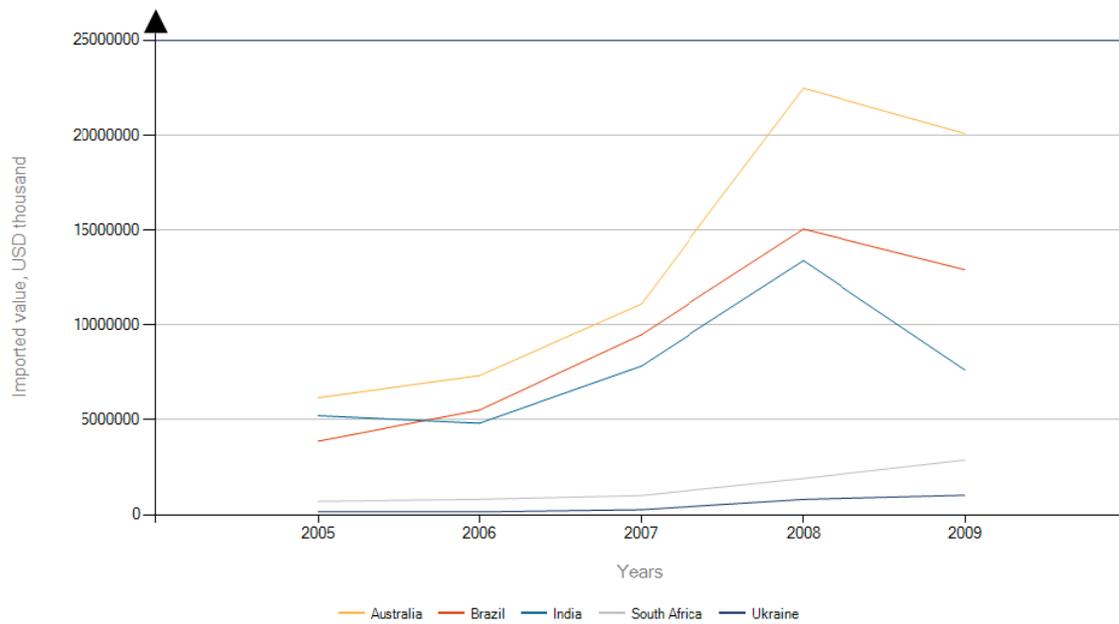
The creation of CBMIE is directly related to the growing importance of iron imports for and into China. CNBM aimed to create a branch solely focused on the potentially enormous volume of iron ore trade.

To better appreciate CBMIE's role within the industry and hence to better understand some of the problems mentioned later, this section sketches the iron ore trade for China.

Mapping the US Dollar value of iron ore imports from Australia, Brazil, South Africa and Ukraine into China offer a feel for the growth of that industry (see Figure 4.2)

It shows that Brazil overtook India as the second-most important supplier of China in the year 2005 to 2006 (until now). In relative terms, Australia, Brazil, South Africa and Ukraine did not suffer as bad from the 2008 recession as did India. South Africa even managed to increase its share of imports into China.

Figure 3.2 List of Supplying markets of Iron Ores and concentrates.



Source: Trade Map, 2010

The next table aggregates the iron ore imports from all countries into China and gives the corresponding amounts in tons for the years from 2005 to 2009.

Iron ore imports yearly data

Year	2005	2006	2007	2008	2009
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Total of tons imported	275,229,184	326,289,312	382,835,872	443,448,288	627,779,200
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Source: Trade Map, 2010

Iron ore imports (measured in tons) into China have increased on average by 23% annually since 2005. However, it was in recent years (2008-2009) that the imports skyrocketed with a 41.5% increase on a year to year basis. From 2005 to 2008 the average yearly growth was 17%.

Until the end of June 2010, 340,000 tons of iron ore have been imported into China from Australia, India and Brazil as main suppliers (Trade Map, 2010). However, only a very low percentage of around 3% was bought by CBMIE.

3.3 The Branch

As mentioned before, in 2005 CNBM set-up a Shanghai branch in order to better satisfy the local industry's growing demand of iron ore. The new branch was called **China National Building Materials & Equipments Import & Export Shanghai Corporation** (CBMIE) and also trades in timber, oil and equipment. Shanghai is the most important office from the five created by CNBM due to its high imports quantity and closeness to the Shanghai port. CBMIE was also created in Beijing, Wuhani, Hong Kong and Russia.

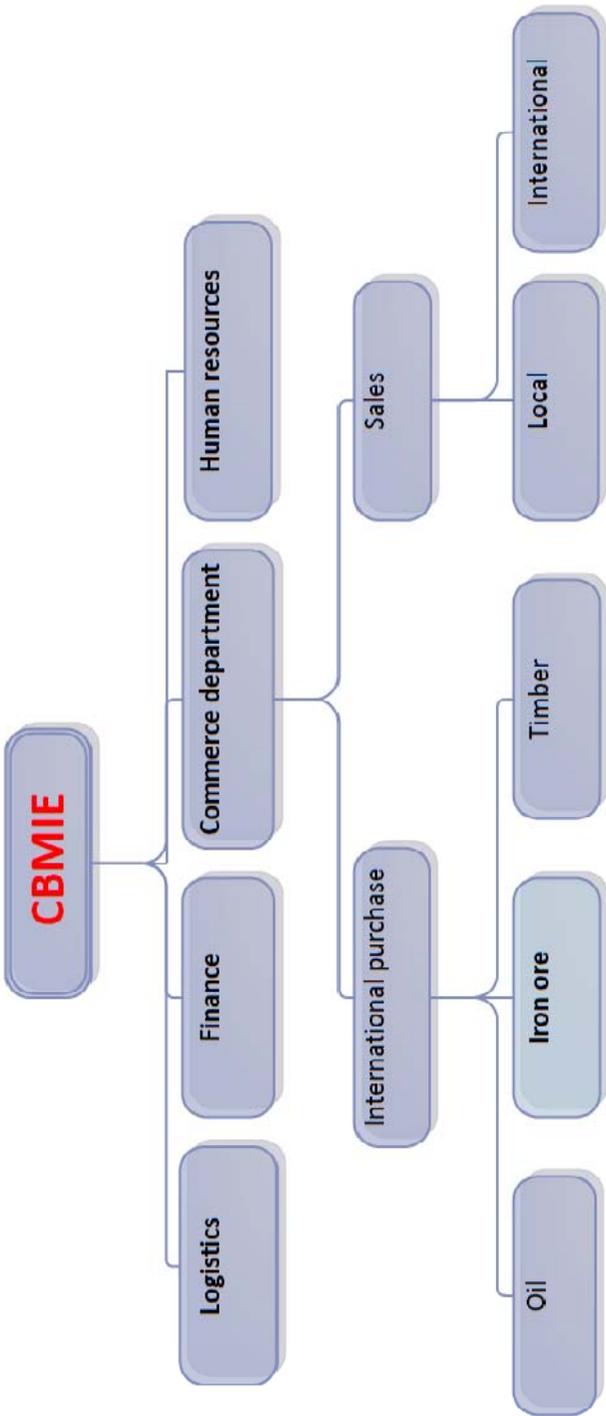
Until the beginning of 2009, CBMIE was an industry leader in the Building Materials Sector. The challenge of this branch is to maintain its purchase records of Iron Ore considering the reduction of global offer but most of all the internal organization.

Owing to the global production increase since 2002, CBMIE enjoyed the advantages of importing a yearly percentage of around 5.45% effortlessly due to the excess of supply offered in the market. The situation that arose since the end of 2009 is that

suppliers had enough buyers to trade their production and contracts were common. CBMIE lost some opportunities with potential foreign suppliers due to its internal lack of organization.

From 2010 to 2012 a decrease in global offer is likely, not because of lower production but because suppliers apparently have signed contracts with the competition. However, with the above-mentioned contracts phasing-out in 2012, the global (available) offer of iron ore is likely to increase again (Business News Americas, 2010). If CBMIE is to take advantage of these upcoming opportunities, they should prepare themselves by organizing their internal operations and by pro-actively searching for potential suppliers.

Figure 3.3 CNBM Organizational Chart



Source: Own elaboration

3.3.1 Duties as an Intern.

I was involved in the sector of **iron ore**. As a Marketing and Business Development Assistant at CBMIE, my principal objectives were:

- Assisting the development of new business opportunities by **searching** for international customers
- Liaising with the company's overseas importers and exporters through the **drafting** of correspondence and contract documents
- Creating value through primary and secondary **information collection** of international timber/MINE needs to contribute to successful business decisions and strategies
- Leveraging market research findings to **identify** new investment opportunities and potential value added services with the Business Development team
- Achieving **the integration** of market research findings into the development of overall marketing strategy with Commerce Manager.

Six months of working for a Chinese enterprise made my duties diverse in accordance to the responsibilities defined here above.

3.3.2 Work Experience at CBMIE.

The first day after my arrival in Shanghai was dedicated to settling in: rent-negotiation with the landlord, getting to know the locale etc.

The next day, Monday, I went to work and met some people from the enterprise that I was going to be part of for six months. The secretary was very kind and she spoke very fluent English. She introduced me to the Director Commercial, Macy Zhu, which smiled me and said with a huge smile: Hello. Then, she referred to the people around and said:

“Hey, this is ‘Siia’ she is from America”. I said hello to everyone and thanks. That was it, as far as the introduction of the new intern in the enterprise was concerned.

They utilized the name of CNBM for every transactional operation, envelops, letterheads or business cards. Only after asking, was I made aware that CBMIE was a branch from CNBM.

My first assignment was to classify a bunch of documents containing certificates of origin, invoices, bill of lading and import licenses among others. It was a challenging task for me, as all the documentation provided was in **Chinese**. During the second day, it was going to be the same. However, I asked my supervisor Macy Zhu what was the objective of my stay. The answer was short: “We want to buy iron ore. It is urgent. Investigate about it”. In that moment, I remembered the phrase: “Don't let the urgent get in the way of the important”. Maybe it was the time to focus on the urgent and I was required to deliver my results as soon as possible.

It was not clear who was working for finding suppliers from Australia, India or any source of supply. Besides, CNBM did purchase to some enterprises in America years ago, however, the information was not linked to CBMIE.

I thought about the ambiguity of the situation and I was sure that some existing records information or a market research was delivered to my supervisor from last interns. In addition to my research for this information, I asked for a list of actual suppliers and plans. Even so, I received negative answers: there were no records, the information was dispersed and I could only find numbers with the finance department and they were confidential. This was understandable that they were not going to share their information with me. I had to start from zero. So did every new employee that I met in the enterprise during my stay.

I decided to propose a new source of supply: Latin America. Therefore, for the next three months in the branch, I was in a 1 member group team. I investigated the principal Iron Ore suppliers of the continent, so my first duty as an intern was accomplished.

About my second task, I had to write some correspondence to exporters from other countries and maintain communication with them in order to achieve the result desired, to buy Iron Ore and evaluate its profiles or previous experience on the export segment to China.

For as my third responsibility was concerned, I consider that I did an important contribution to data collection for decision makers. As a part of my research in Latin American market, I effectuated a research investigation and prepared a presentation for the General Manager and the decision makers of the branch which described the countries (Brazil, Venezuela, Colombia, Mexico, Bolivia, Peru, Canada and Chile) and the enterprises in charge of the excavation of the mines that produced the mineral required. I contacted enterprises such as VALE, SIDOR, AHMSA, Grupo México, El Mutún, Minera del Pacífico and Rio Tinto amongst others. For me and in order to augment some arguments for the analysis of the problem identified in the enterprise, is important to mention that this investigation was based on my personal sources, my own common sense and some key information that I was required to search.

To continue with the evaluation of my tasks, I could mention that the “business development team” that I was supposed to join from the beginning of my internship did not exist. My team was myself. By mid March my supervisor mentioned that a Colombian young woman was going to join the enterprise. I could not explain how excited I was to finally share my confusion with a Latin girl. I improvised a one week orientation for her, in order to avoid her to waste time and to start working together as a team to buy Iron Ore

from America. After one month, she mentioned that she was looking for a job in other conglomerate because notwithstanding her four years studying in Shanghai, it was the first time that she felt a terrible cultural shock. Therefore, as part of the constant high turn-over rate, she decided, to quit arguing that she **preferred an organized enterprise**. Her perception that there was no organization whatsoever was further emphasized by her mentioning that neither procedures nor even objectives were actually defined. Apparently the only maxim was: “No matter how you do it, you are supposed to deliver results”.

I concluded that, for the Chinese themselves, they did not pay so much attention to the process used. It appeared as if they just only cared for results regardless of the way to achieve it. For example, some people used to sleep in their desks and nobody seemed to care. One more example is that some of the employees used to yell at the phone at their suppliers to get the desired purchase price. But, as I said, it did not seem to matter as long as they could obtain some result, not necessarily an optimal one but the one that presented itself as an outcome after a certain period. They did not necessarily measure it according to a preexisting goal.

This chapter introduced the topic of study in which the internship took place. The next chapter focuses in the evaluation of the organizational problems identified at CBMIE during the internship period and also analyses the possible causes and consequence related to the problem.