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ITL – 2011

Strategy Analysis of SHANGHAI CHANGFU SHIPPING CO., LTD

Name: Wang Jun

Student Number: SS1118

Assessor: Professor Zhao Gang

Date of Submission: June 13th, 2011

DECLARATION

I hereby certify that all the material in this dissertation that is not my own work have all been identified, and that no material is included for which a degree has previously been conferred on me.

The contents of this dissertation reflect my own personal views, and not necessarily endorsed by the University.

(Signature): _ WANG JUN _

(Date): _2011-6-13_____

Supervised by Professor

Zhao Gang

Shanghai Maritime University

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This thesis would not have been possible unless Ms.ZHOU YingChun, Ms.HU FangFang and Ms.HUANG Ying who are in charge of the program support and help me in the two years. All of the professors of MSC program direct me in the transportation and logistics industry.

I extremely want to show my indebtedness to my beloved parents, who offered me full support and encourage during whole my life.

Last but not least, I offer my regards and blessings to all of those who supported me in any respect during the completion of the project.

Abstract

This article by analyzing the current economic context, particularly in the global economy experienced a financial crisis, China's small and medium shipping companies in the current situation facing the key development issues, and for the international shipping industry, a typical small and medium enterprises:

SHANGHAI CHANGFU SHIPPING CO., LTD to conduct a comprehensive analysis of the operational data obtained by the enterprises related conclusions, that is, its status, operating conditions, operating environment, business characteristics and development prospects, the problems faced by the enterprise put forward practical solutions.

While the core of this paper is mainly reflected in the current economic

situation, we conducted a comprehensive analysis of the SHANGHAI CHANGFU SHIPPING CO., LTD, in the current economic context, the company selected by the right strategy to ensure that the company has sufficient cash flow to ensure that the company in the current adverse economic environment is still able to function properly, and have a stable source of shippers and cargo. Just hit by the financial crisis hit the global economy is not stable, which is shipping the majority of small and medium enterprises is a disaster, BDI index falling left many SMEs struggling class shipping. Based on the SHANGHAI CHANGFU SHIPPING CO., LTD analysis of the company's strategic choice to draw the relevant conclusions of other small and medium shipping companies to provide a good example out of the woods, and hope to those in distress to seek a way out of the small number of strategic shipping enterprises inspired.

Key Word: SHANGHAI CHANGFU SHIPPING CO., LTD Corporate
Strategy SMEs

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Chapter 1: Introduction

1.1 Analysis of Chinese small and medium shipping companies' operating characteristics

1.1.1 Background Information

There is no doubt that the global economy in 2010 is a special and memorable year. Unprecedented in the country's economic policy stimulus, the economic fundamentals in early 2010 out of the shadow of the financial crisis, but economic recovery is full of risks. Continuous decline in the first half of the U.S. GDP, caused global concern; followed the debt crisis began to spread in Europe, triggering the capital market volatility; rising commodity prices, global inflation is spreading. A series of events on the formation of capital markets and real economy a larger impact, but nevertheless, the global economy continues to slow recovery. 2010, the overall international dry bulk market is better than 2009. Baltic Exchange dry bulk freight index (BDI) 2010-year average of 2758 points, compared with 2009 2623 higher than the 5.1% annual average. Although the overall performance of the dry bulk market growth, slowing the pace of global economic recovery, dry bulk fleet overcapacity of the year actually was from high to low tariffs downward trend shocks. BDI mean the first half of 3166 points, second half of the increase in delivery capacity and domestic energy conservation and other related policies, the international dry bulk market performance as "not busy season", tariffs

were falling instead of rising trend. BDI mean the second half of 2358, representing a 25.5% decline in the first half. 2010, due to the increase in the proportion of coal transportation, and the fluctuations in demand for seaborne iron ore, revenue of different ship in the dry bulk market have to be effected.

In 2011, some of the world famous organizations predict the global economy in 2010 and 2011. Among them, the World Bank estimates that in 2010 and 2011 the global economy will grow by 2.9% and 3.3%. United Nations estimates that in 2010 and 2011 the global economy will grow by 3.0% and 3.2%. Economic growth is the general trend, but the capacity growth rate of the shipping industry can be put under control and was digested by the rise in trade volume, which will determine the rise and fall of 2011, the key to the shipping market.

In the current economic context, SHANGHAI CHANGFU SHIPPING CO., LTD as a typical small and medium sized shipping company, how it survive in the current situation and development has become a worthy of study problem. The core of this paper is mainly in combination with the current economic situation, we have a comprehensive analysis, in the current economic context, the company select the right strategy to ensure that the company has sufficient cash flow to ensure the company is still able to function properly in the current adverse economic environment, and have a stable source of shippers and cargo. The current global economy is rising slowly, which is a test to many

shipping companies, especially for those small shipping companies.

1.1.2 Characteristics of the international shipping business

International shipping is also known as "international maritime transport", referred to seaborne, it means that through the use of ships to transport goods and passengers. It includes ocean transport, ocean transport and coastal transport near. It uses natural marine channels, the general unrestricted tonnage, with a large volume and low cost. But the Seaborne by the geographical conditions, and sometimes affected by seasons.

We can make a analysis to the characteristics of the current development of international shipping, in the long term, the international shipping industry depends mainly on the general trend of international trade and economic development, while the global economic integration, integrated transport to the deep-seated changes in the shipping and the buyer's market further to form Shipping companies to establish a global unified messaging system, is it feature. It can be subdivided into the following four points:

First of all, the international freight traffic continued to grow steadily, the unit price and freight transport quality requirements continue to increase. The speed of economic globalization continues to accelerate, and it also to drive

the world trade growth steady. At the same time as the world economy improvement in the level of science and technology, knowledge of content and value-added products increased significantly, the unit will increase freight rates, and demanding higher quality of transport; while the price of primary products in international trade will be relatively lower. In short, cargo canvassing for increasing the amount of knowledge, it should also focus on improving the knowledge of the transport itself.

Secondly, the international transportation will enter the era of the integrated transportations; realize logistics system modernization, transportation development appearing and a major revolution. In 21st century, the new modes of transportation will break the traditional mode of transportation fragmented situation between the different modes of transportation, emphasize the integration and integration. Many transportation means conversion, cohesion, will mainly by a carrier organization completed. Maritime transport carrier would be change from the simple goods "port to port" transport carrier and organizers, to become a "door to door", "peer-to-peer" comprehensive carrier and organizers. Therefore, shipping enterprises facing increasing reduce the cost and improve the service level of stress.

Moreover, the international shipping market further develop to the "buyer's market", shipping industry competition more hasten is fierce, shipping

companies will focus on providing "mass customization" service. Now, the world shipping has been formed "buyer's market". As the shipping continues develop to open and development, "buyer's market" is further deepening, shipping industry competition more hasten. The goods to the carrier shipper will put forward higher, more personalized requirements, such as shortcut transportation, hang port reduce, nonstop sea-route increase; The carrier will provide more good service and better meet individual and professional of the shipper transport demand. Farsighted leadership is focusing on the shipping enterprises provide can realize the organic combination of both the "mass customization" service. As such the services of a real concrete manifestation, shipping industry in the meanwhile, realize a large scale ships, is also pushing the high development of small and medium-sized.

Finally, shipping companies will establish global unity information system; form the global sharing information network. Highly developed in information technology as the main characteristic in the era of knowledge economy, shipping industry information system modernization have become an important market competition means and core competition ability. In order to improve the utilization rate of shipping and the competitive power of enterprises, shipping enterprises must establish integration, global sharing of information network. The application of information technology has become the key measure of shipping company to cut management costs, improve the

service level and strengthen their competitive advantages.

From the above characteristics analysis, we can know, shipping industry enterprises and international economic environment is very closely linked, the international economic environment likes and dislikes will directly influence the development of the enterprise, and the current international environment is very bad, market depression, each profession all down and shipping this and other industry development has a direct connection industry also faces a severe test.

It also seems that in this kind of environment of small and medium-sized shipping enterprise survival environment are more difficult.

1.1.3 Advantages and Disadvantages of the small shipping company's development

Advantages:

(1) The company management costs low. Small and medium-sized shipping company has small scale, institutions, the employee of the company is limited, streamlined without historical burden, all these greatly reduces the company's daily cost.

(2) Small and medium-sized enterprises have their own strengths. Normally, the company will have one or several fixed customers, business fixed route.

With fixed customers, can maintain the stability of the supply of basic source of profits, guarantee; Business fixed routes, can develop relationships with ports, do early outfit, shorten operating cycle early discharge.

(3) The company is small, it can change business strategy quickly when market changes, it has strong adapt ability, especially in market competition, pricing strategy, can react more rapidly acquired new shipper and the faster the transportation supply stable. With these three advantages of small and medium-sized enterprises and shipping will be very good "expenditure", and firmly get investment returns.

Disadvantages:

(1) Individual effort is less preferable. Because of it own carriage ability is limited, lack of control ability, it is unequal with the large shippers when negotiations. The power of the unequal and may cause potential danger of customer loss.

(2) It has a heavy security presence. When they established, in order to reduce investment, mostly will buy the ship which has high average age to reduce cost, it also may turn to hire low wages crew, and these are brought serious security hidden danger to shipping enterprise.

(3) Often alone to bear risks. Due to the insurance company refused to cover for high-risk ships; in addition, hire the crew with low wages, and low wages means low level, low quality, this will give ship management bring many problems.

(4) The ability to through the bottom is limited.

(5) It is difficult to financing. Because shipping enterprise belong to the characteristics of capital-intensive industries, enterprise development without financial support is very difficult, at present Banks provide loans were very small to small and medium-sized shipping enterprise, and has high conditions, it cause shipping enterprise development very difficult (currently, small and medium shipping companies is to adopt social financing, nets pitch, and big cargo methods seek joint shipbuilding development).

1.2 Introduction of SHANGHAI CHANGFU SHIPPING CO., LTD

1.2.1 Company Overview

SHANGHAI CHANGFU SHIPPING CO., LTD, which is approved by the Ministry of Communications of the People's Republic of China, was established in 2005. It is specialized engaged in the waterway cargo transport enterprises. The main business of the company is the cargo transportation

about Yangtze River and domestic coastal and freshwater. The company has many professional management and administration staffs. Now the Company established long-term friendly strategic cooperative relations with many big steel, power plant and coastal main ports and shippers.

SHANGHAI CHANGFU SHIPPING CO., LTD has been established since 2005, it experience the snowstorm catastrophe swept shipping high-growth, high-return era (2005 to 2008), also experienced the global financial crisis, though the free fall under shipping line down stage (2008 to 2010) : the boat price tumbled about 60%, freight rate tumbled 65% (early 2009 compared with early 2008); In the financial crisis as the company take business strategy is: buy the ship wary of investing, source relying on big cargo owner, shipping route stability, chartering enlarge market share, which make this enterprise in global financial crisis still invincible, also still have steady returns. Therefore, this paper discussed in detail the enterprise the analysis.

SHANGHAI CHANGFU SHIPPING CO., LTD owns and control business in domestic coastal sea vessel 6 ships, river boat 8 ships in transportation; annual transport capacity is about 3 million tons. In 2010, the company decided to build a new 12000T bulk carriers, add their capacity. The company has a long term business for Maanshan Iron & Steel Group Co., LTD. Wuhan Iron & Steel group Co., LTD, Shanghai Conch Logistics Co., LTD. And

Zhenjiang Power Generation Co., LTD and other large state-owned enterprise to undertake cargo transportation service. The types of goods which it transports mainly include: iron ore (powder), coal, cement clinker, etc.

1.2.2 The company's business and structure analysis

A) The cargo owner which the company services mostly are domestic steel mills, power plants, etc.

a) The second carriage Ore Transport of Maanshan Iron & Steel Group Co., LTD. (From Foreign Ports to Domestic Ports as the first carriage; From Coastal ports to Steels as the second carriage); Main routes: From Qingdao/Rizhao to Maanshan; From Beilun/Majishan to Maanshan.

b) The cement clinker transportation of Shanghai Conch Logistics Co., LTD; Main routes: From Wuhu/Tonlin to Beilun/Zhoushan/Lianyungang.

c) The coal transportation of Zhenjiang Power Generation Co., LTD; Main routes: From Huanghua/Qinhuangdao/Tianjin to Zhenjiang.

Because of the cargo owner which the company services mostly are large state-owned steel mills, power plants and listed companies, although these enterprises operate in the financial crisis has been greatly affected, these enterprises may be cut in the production

process, but the basic raw materials which they need have quite small reduce, so, due to the company based large-scale enterprises, and have long-term relationship with them, the company do not have a big impact by the 2008 financial crisis.

B) The assets of the company:

Four company-owned oversea vessels: MV.CHANG FU 6 (DWT 12,000); MV.CHANG FU 10 (DWT 6,100); MV.CHANG FU 11(DWT 6,300).

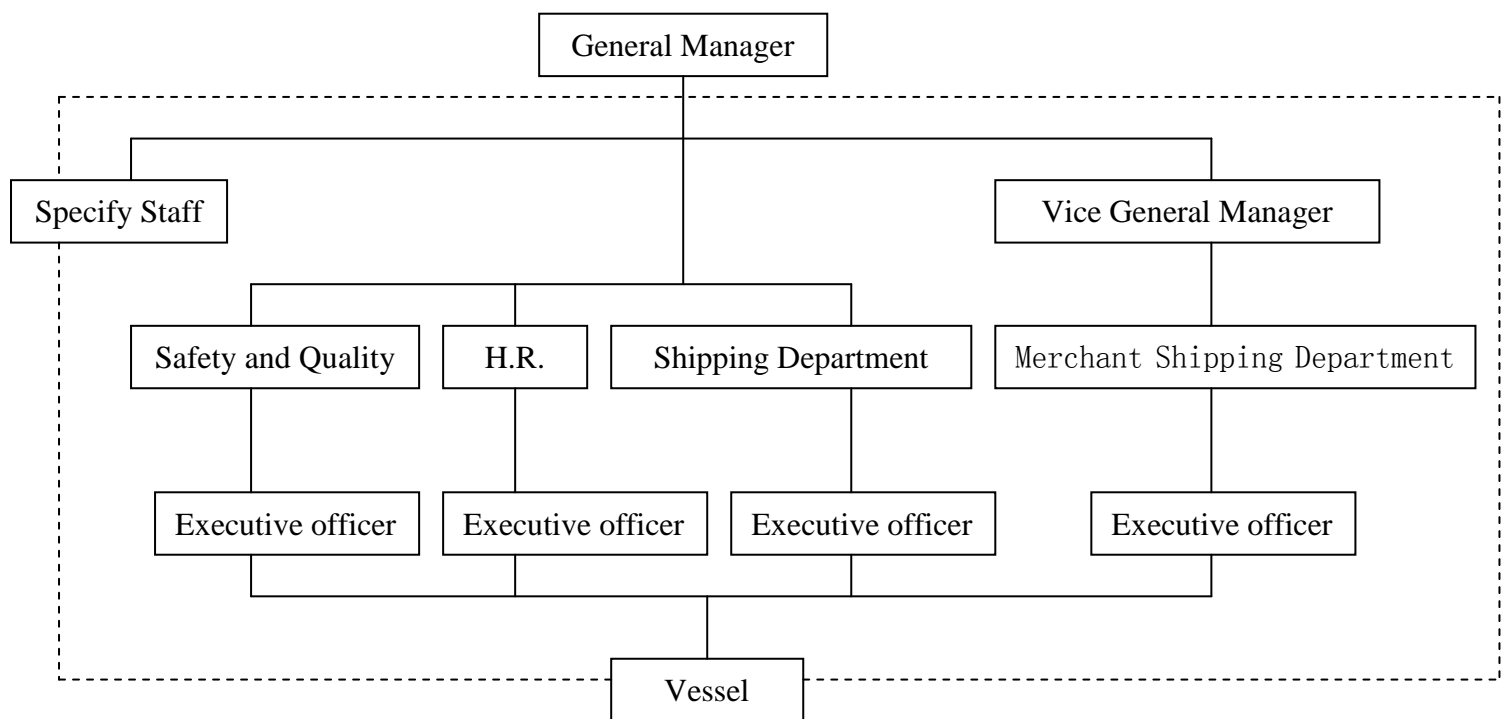
(P.S. MV.CHANG FU 6 is company owned ship, MV.CHANG FU 10 and MV.CHANG FU 11 the company has 35% shares, respectively).

These assets are not depreciated. For example: MV. CHANG FU 6, its cost was 38 million in 2005; in early 2008, it worth 70 million; now, although the ship price have some decline, it also cost 42 million.

C) The company working closely with the cargo owner. In 2008, MV.CHANG FU 6 became a liner ship for Maanshan Iron and Steel Group. So, this ship can not transport other cargos in the shipping market, although the freight at that time is very high (Such as "Qingdao - Maanshan" ore freight was 100 Yuan/ton; but the fixed freight which set by Maanshan Iron and Steel Group at the beginning of the year was 73 Yuan/ton), the company also had a long-term consideration, chooses liner shipping. In 2009, because of the financial crisis, many carriers can not find the source, while this is the

liner ship, although the freight is decline to 55 Yuan/ton, the transport efficiency is still good.

D) We can see the chart of the company's System Structures:



Organizational Structure

Control Structure

Chart 1 SHANGHAI CHANGFU SHIPPING CO., LTD's business and enterprise structure

From the above chart shows that, the highest levels of safety management of the company composed by the president, vice president and specify staff.

General Manager bears the main responsibility for security and environment.

And through the analysis of SHANGHAI CHANGFU SHIPPING CO., LTD 's business and enterprise structure, we can have a full understanding of the company, and the company how to develop their own advantage, changing the disadvantage, for their own development to find a most suitable way when they face of the current economic environment, is also worthy of our analysis.

Chapter 2: The effect of current economic environment to

SHANGHAI CHANGFU SHIPPING CO., LTD

2.1 Development of the situation of SHANGHAI CHANGFU SHIPPING CO., LTD

2.1.1 The current BDI

In January, Australia and Brazil floods are still obstructing the downturn bulk transport market; BDI continues to fall, in early of the month, it dropped from 1693 points to 1107 points at the end of the month, it drop of about 34.6%, while the BDI index the last time at this level is in the year 2009. From different types of ships, which BCI index dropped by 40.9%, BPI index dropped by 27.1% and BSI index dropped by 17.2%, bulk transport is still below the breakeven point, but in early February, the index trend seems to have stabilized. Domestic coastal bulk freight continued to show declines, coal and ore transport have no improvement.

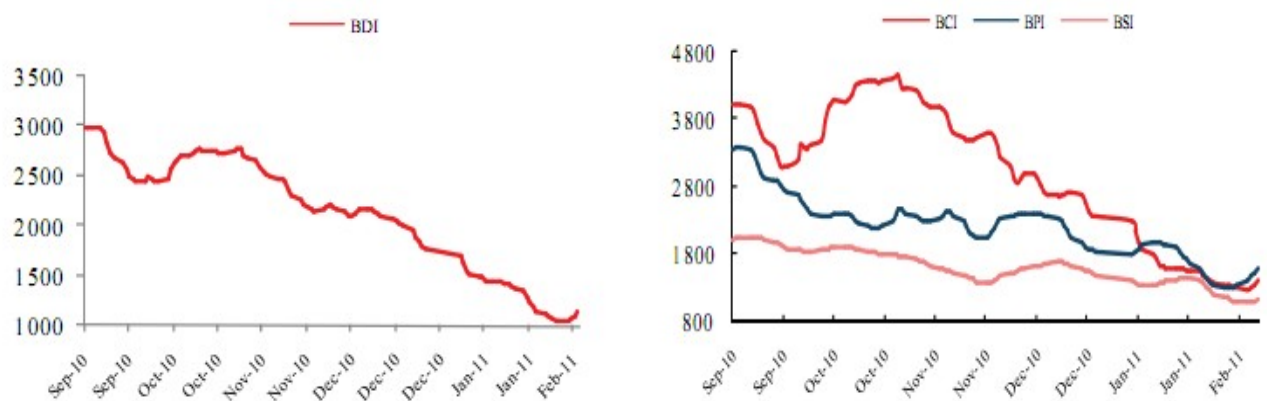


Chart 2 Index of BDI/BCI/BPI/BSI from Sep 10th, 2010 to Feb 11th, 2011

In coastal bulk cargo, the January index of coastal bulk cargo has declined. Coastal Bulk Index closed at 1299.6 points in late

January, down over 129 points compared with late December; ore index is about 1102.6 points, down 29 points. Grain Index close at 975.8 points, dropped 168 points. From the freight perspective, Qinhuangdao - Guangzhou, coal freight is 50 Yuan / ton, down 7 Yuan per ton; Coal freight of Qinhuangdao - Shanghai is 39 Yuan / ton, down 8 Yuan per ton.

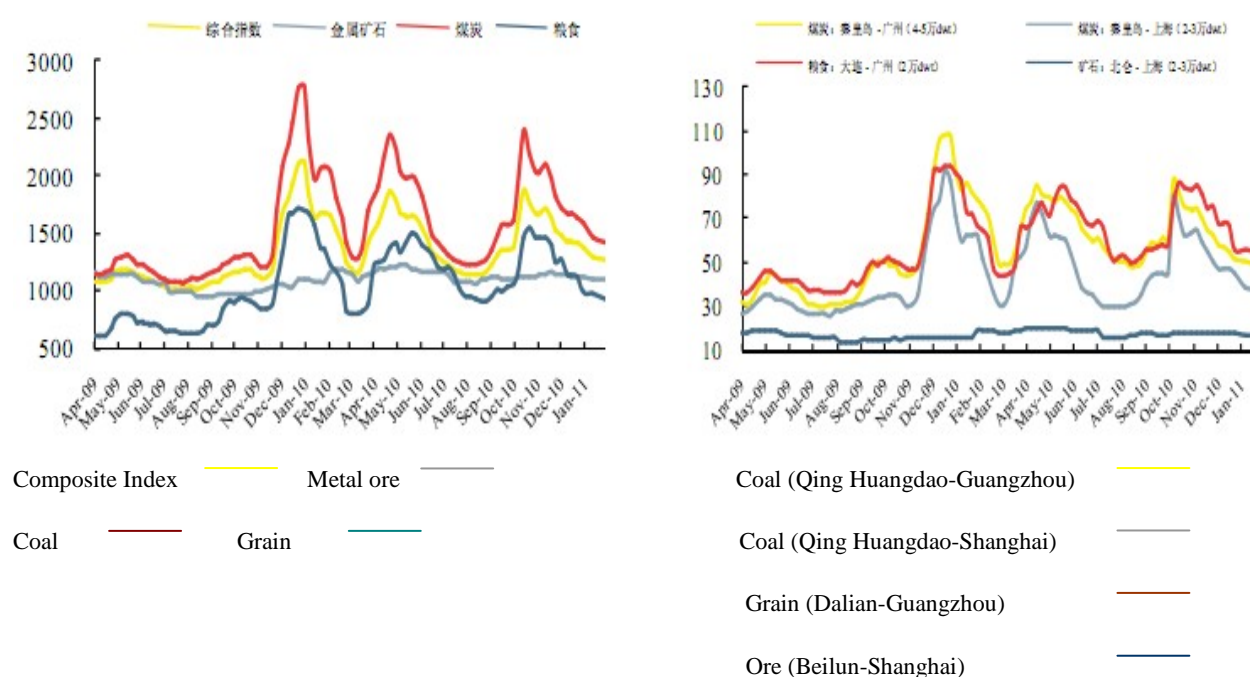


Chart 3 Coastal bulk cargo Index

In iron ore, domestic steel prices index closed at 174.1 points in January 28, up 6 points compared with the end of December, in which the long products index rose 5.4 points. At the same period, imports of ore prices have risen, the iron ore prices of the Beilun port at the end of January is about 1,320 Yuan / ton, up by 5.6% compared with the previous month; domestic iron ore prices have increased when compared with the end of December, which, on behalf of the Daixian iron ore spot prices unchanged for 1,010 Yuan /

ton; Shandong Zibo spot prices rose 2.4% to 1,470 Yuan / ton. Domestic steel stocks are still high; the Shanghai stock at the end of January reached 3,158,100 tons, compared with the previous End of the month increased by 2.8 million tons. Domestic iron ore port stocks in January were 80.97 million tons, representing an increase of 4.4 million tons by the end of December.

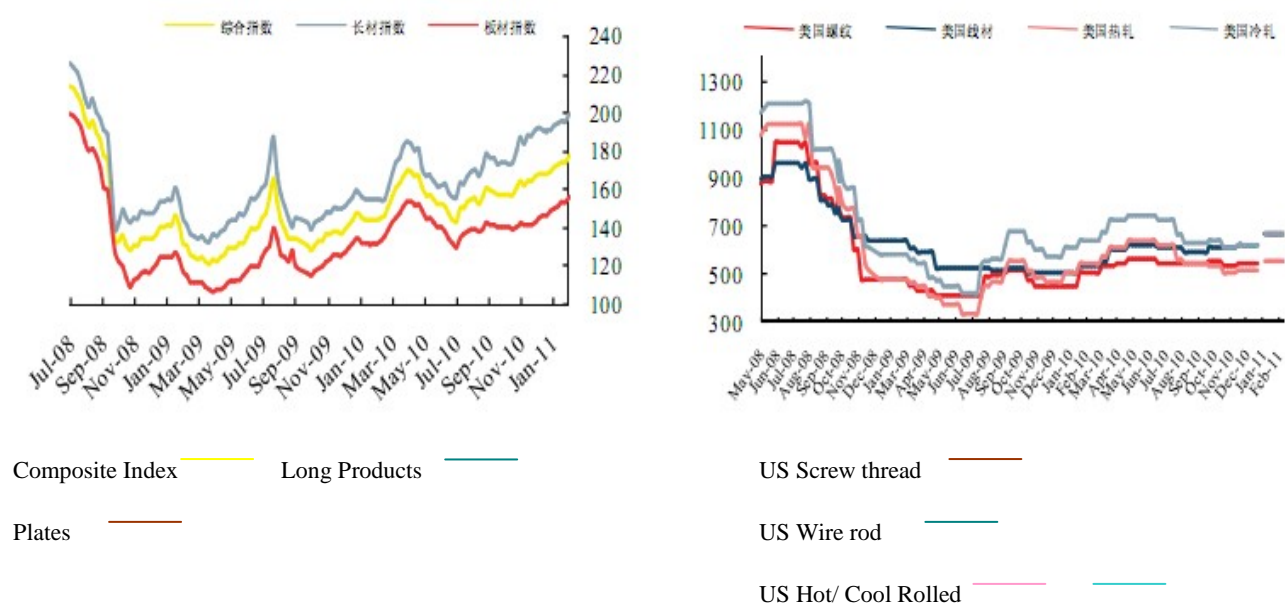


Chart 4 Composite indexes of domestic and international steel prices

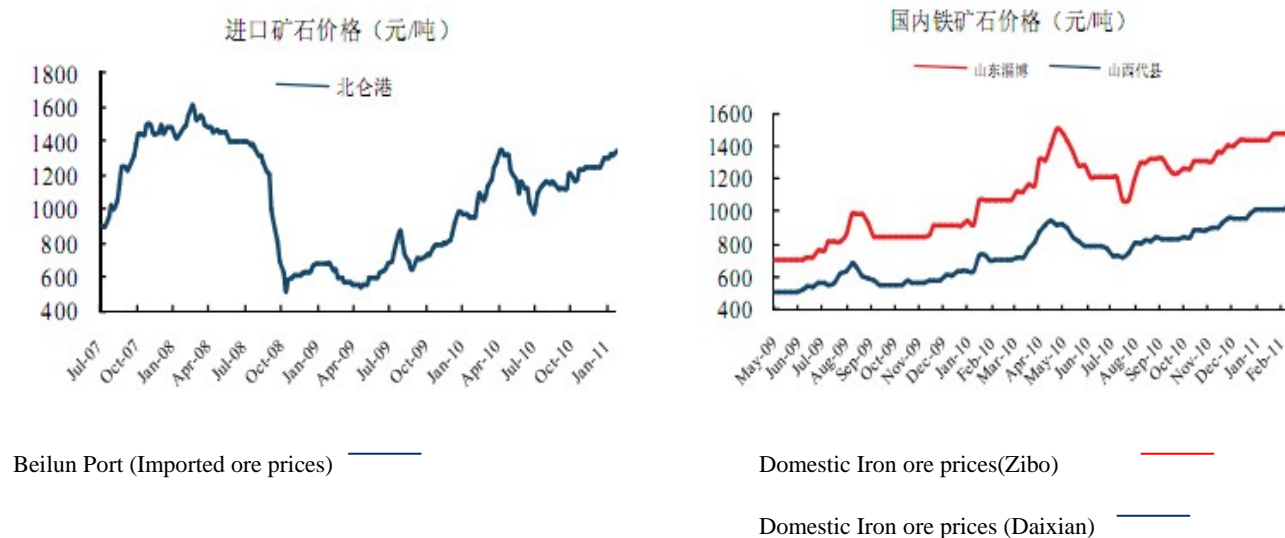


Chart 5 Imports and domestic iron ore prices (Yuan/Ton)

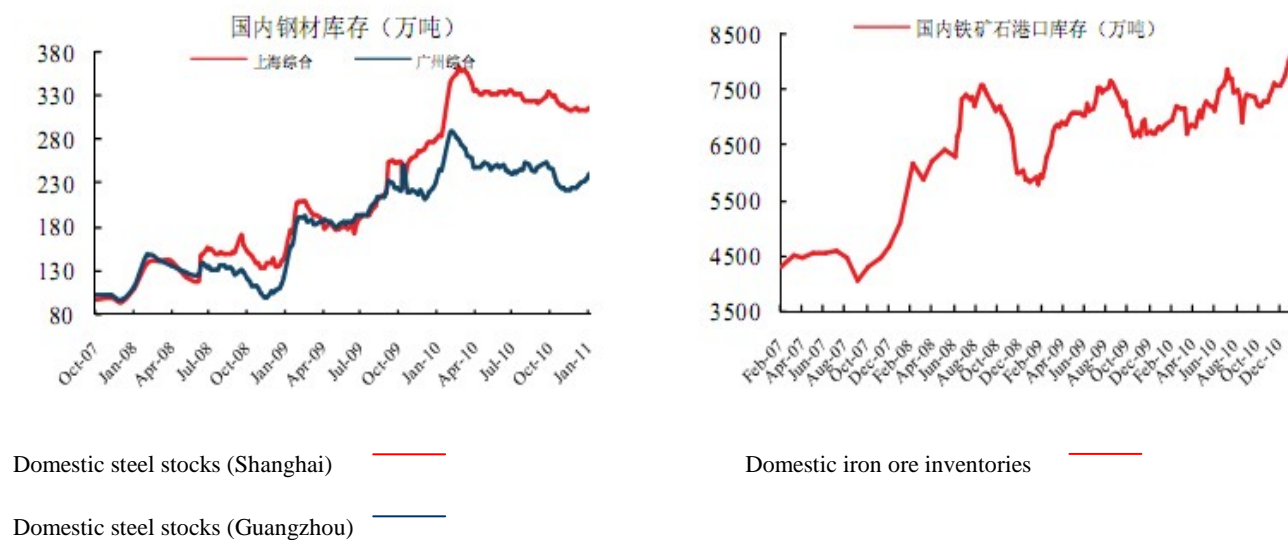


Chart 6 Domestic steel and iron ore stocks (10,000 tons)

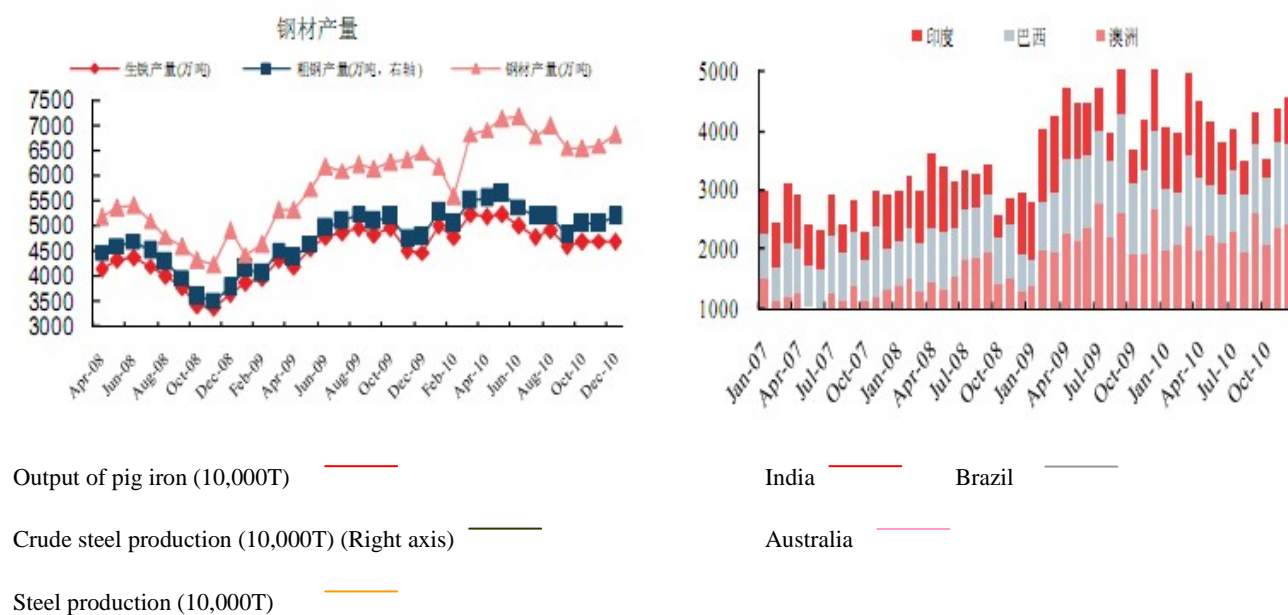


Chart 7 Domestic steel production and iron ore imports

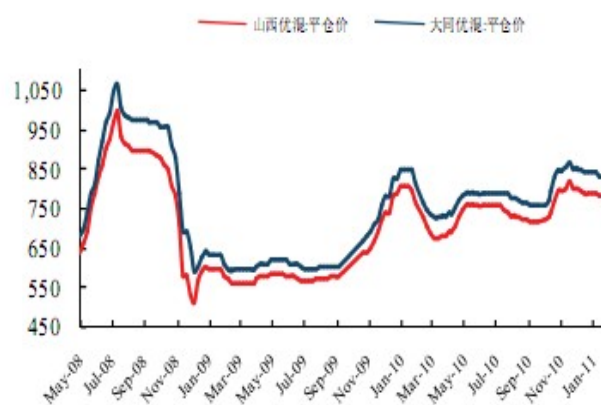
In coal, the Qinhuangdao Port coal stockpiles an end to 6,859,600

tons, compared with December down 21.2 million tons. Domestic coal prices

have declined compared with December, January 31, Datong excellent

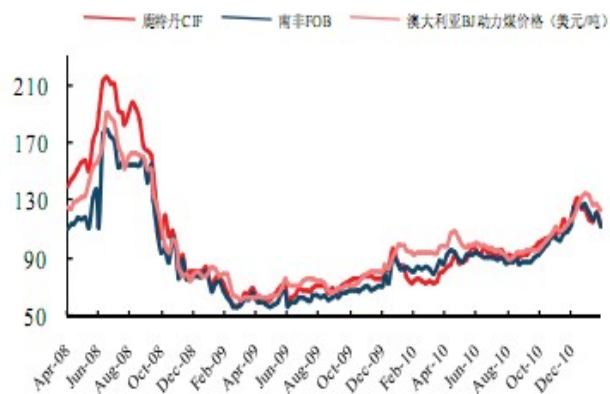
mix closing price of 830 Yuan / ton; international coal prices rise and

fall, BJ coal prices in Australia in January is about \$ 127.5 / t, representing the end of December rose 2.75 U.S. dollars / ton, while the Rotterdam CIF is about \$ 115.25 / ton, down \$ 16.75 in December per ton.



Domestic coal prices (Shanxi) (Yuan/Ton) —

Domestic coal prices (Datong) (Yuan/Ton) —

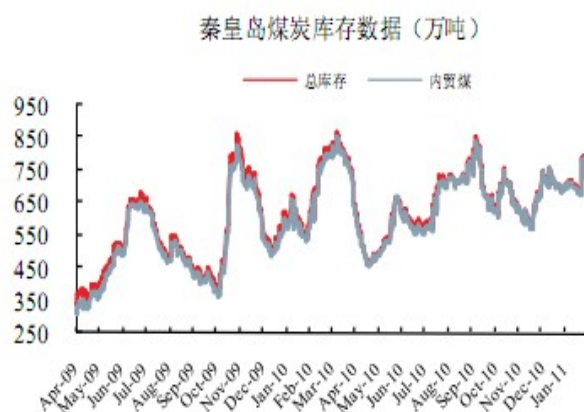


Rotterdam CIF (U.S. dollars / ton) —

South Africa FOB (U.S. dollars / ton) —

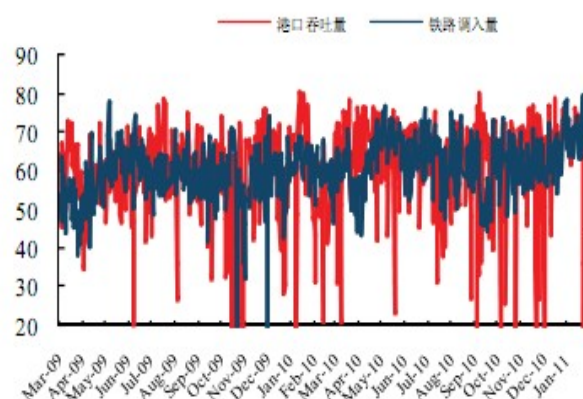
Australia BJ (U.S. dollars / ton) —

Chart 8 Domestic and international coal prices



Qing Huangdao Coal Total Stocks (10,000T) —

Domestic trade Coal —



Port Throughput —

Transported capacity —

Chart 9 Qing Huangdao Coal Stocks and Transported Capacity

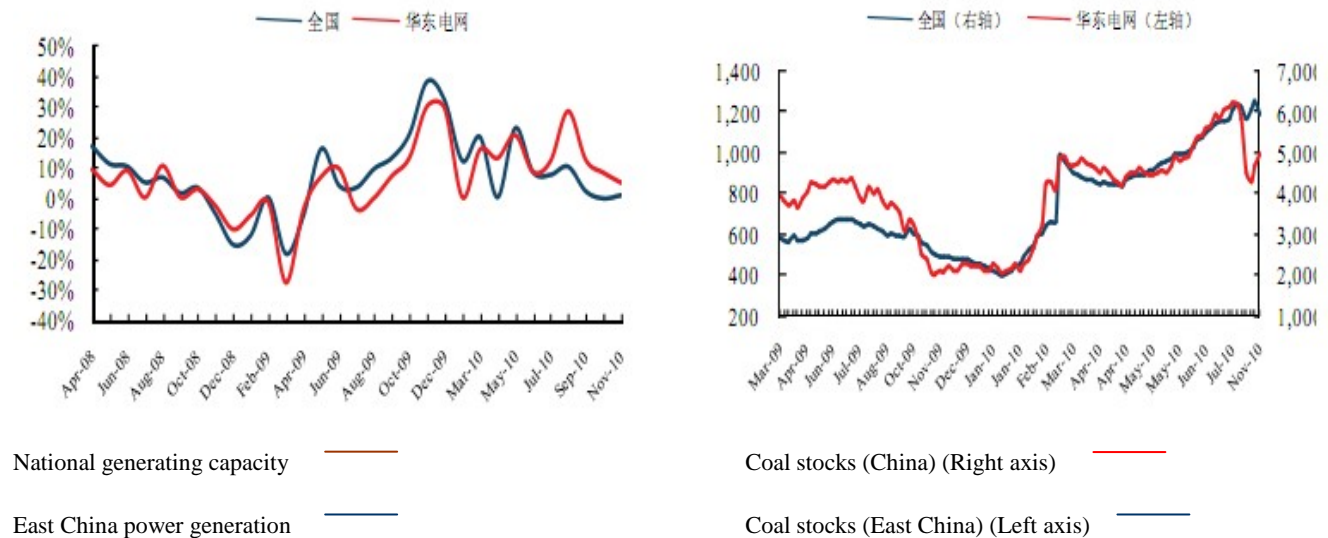


Chart 10 China and East China power generation and coal stocks

2.1.2 Current development situation of this company reflected by the BDI

Based the above data we can analysis that, the current economic environment has two aspects impact to SHANGHAI CHANGFU SHIPPING CO., LTD: first, through the economy just trough the bottom, the data is still in the lower level, which is a test for the company's operating capacity, how to through the valley of the economy stable and smooth is company's most important issues at current time. Second, we can know from the table that, in the steel and coal, the index rebounded quickly, because the company is mainly transport iron ore and coal, so the company decision-makers should keep close eyes on both indices, and quickly response, to find right direction of the company's development

2.2 Analysis of the core business of SHANGHAI CHANGFU SHIPPING CO., LTD

The main business of SHANGHAI CHANGFU SHIPPING CO., LTD is the coast and Yangtze River cargo transportation. As the company's main business is the dry bulk cargo transportation, so the above index also reflects the company's current operating environment. We can make a business analysis of one of the company's own 12,500 tons of carriage "ChangFu 6" transport the iron ore of Maanshan Iron and Steel Group of the route "Qingdao - Zhangjiagang, "as a case.

(I) Main data:

Shipping Construction Cost: 38,000,000 Yuan

Depreciation period: 10 Years (380 million per year)

Operating Route: Qingdao-Zhangjiagang

Types of transportation cargo: Iron ore

Deadweight tons: 12500 T

Operation mileage: 400 nautical miles

Operating rate: 90%

Navigation rate: 60%

Load rate: 98%

Repair rate in Cost: 3%

Irregular Data: Freight and Fuel Price

According to 5 overload trips per month, the ship working 11 months a year, so the annual voyage to be completed by 55 heavy voyages

(II) The operating conditions from 2007 to 2010 as follows:

In 2007: Freight: 40 Yuan/Ton; Fuel price: Light oil: 5,300 Yuan/Ton; Heavy oil: 3,500 Yuan/Ton.

i) Revenue of annual transportation: 2750 Million Yuan

Annual income= (Unit price×Volume×frequency of navigation)

×Operating months= 2750 Million Yuan

ii) Annual shipping costs (Fixed costs +Variable costs+ Fuel costs+ Port charges):

The Fixed costs: 800 Million Yuan includes:

- ① Depreciation: 3,800million Yuan/10years= 380million Yuan/year
- ② Cost of repair: 3,800million Yuan×3%= 120million Yuan/year
- ③ Crew wages: 220million Yuan/year
- ④ Vessel Insurance: 30million Yuan/year
- ⑤ Materials: 50million Yuan/year

The Variable costs: 1,000 Million Yuan

Fuel costs: 880 Million Yuan/year

- ① Heavy oil: 8 Tons/Day×4 Days×5 overload trips×3,500yuan/Ton

=56million Yuan/month

② Light oil: 45 Tons/month×5,300yuan/Ton=24million Yuan

Annual= (56million Yuan+ 24million Yuan)×11months=880 million

Yuan

Port charges: 120 Million Yuan/ year

iii) Business tax: 2,750 million Yuan/year×3.15%= 86.63 million Yuan

iv) Transportation profit: 863 Million Yuan/year

Transportation profit= Revenue of annual transportation- Annual shipping

costs- Business tax= 863 million Yuan

v) Sharing management fees: 240 Million Yuan/Year

vi) Total profits= Transportation profit- Sharing management fees= 623million

Yuan/year

vii) The ROI and the Payback Period:

① ROI= (Total profits + Depreciation)/ Shipbuilding prices×100%=26.4%

② Payback Period= Shipbuilding prices/(Total profits +

Depreciation)=3.79years

Similarly, we can calculate the targets of the year 2008、2009 and 2010(see the table below)(P.S.: The freights in year 2011 was about 40 Yuan/Ton):

Year(Y)		2007	2008	2009	2010
Freight(Yuan/Ton)		40	53	36.6	50
Oil	Light	5300	6800	4800	6907

<i>Price(Yuan/Ton)</i>	<i>Heavy</i>	3500	4800	3200	4855
<i>Transport cost(Million Yuan)</i>	<i>Fixed</i>	800	800	800	800
	<i>Variable</i>	1800	2100	1720	2130
<i>Revenue(Million Yuan)</i>		2750	3643.75	2516.25	3437.5
<i>Transport profit(Million Yuan)</i>		863	1428.97	716.19	1199.5
<i>Business tax(Million Yuan)</i>		86.63	114.78	79.26	108
<i>Sharing management fees(Million Yuan)</i>		240	300	200	240
<i>Total profits(Million Yuan)</i>		623	1128.97	516.19	959.5
<i>ROI (%)</i>		26.4	39.71	23.58	35.25
<i>Payback Period(Y)</i>		3.79	2.52	4.24	2.84

So, we can draw a Revenue trend chart as follows to help us to have a more intuitive understanding of SHANGHAI CHANGFU SHIPPING CO., LTD:

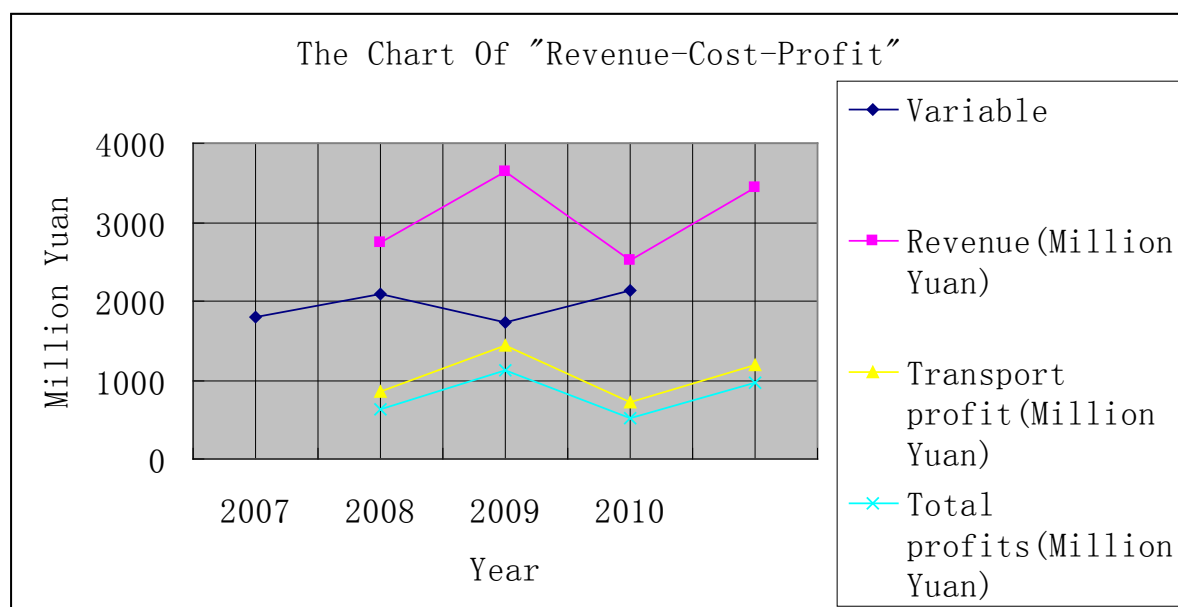


Chart 11: The Chart of "Revenue-Cost-Profit" of SHANGHAI CHANGFU SHIPPING CO., LTD from 2007 to 2010

As can be seen from the above figure, when SHANGHAI CHANGFU SHIPPING CO., LTD faced the financial crisis, the indicators of it have declined, but compared with 2007, the "Transport profits" and Total profits" do not have much difference, which shows that the enterprises use the right strategy to avoid the financial crisis, the revenues and profits in 2009 compared with 2008 have a substantial decline, but the transportation costs are also reduced, they still have a certain profit, and it does not have deficit. When they face the global financial crisis, SHANGHAI CHANGFU SHIPPING CO., LTD have a successful choice of corporate strategy, therefore, in 2010, the company's various indicators have been improved, although the oil prices in 2010 has rising a lot, but the company's profits and transport gross profit has increased substantially, which makes the company successfully out of financial

crisis, and has a stable development.

The 2008 financial crisis is a disaster to all small and medium shipping companies; it is a challenge for the majority of small and medium enterprises to find a way out of the crisis. When SHANGHAI CHANGFU SHIPPING CO., LTD in this unfavorable environment, how it develop its own advantages and disadvantages to change for its own development to find a most suitable way out of this crisis is worthy of our analysis.

First of all, SHANGHAI CHANGFU SHIPPING CO., LTD is supported by capital rather than relying on staff to get the profits, so it has a relatively small number company employees, which makes the company only need to pay less wages to staffs than other staff-intensive small and medium enterprises during this current environment, and the employees' income does not become a problem to limit the company development, according to this, the company does not need to like other large enterprises or other personnel-intensive small and medium enterprises as out of trouble by cutting staff, and it also let the company's decision-makers put their main energy on the other aspects of the company's development.

Due to the company's staff is few, which helps them to build a good relationship system between employees and reduce the conflict between the

staff, and making the company's staff from general manager to the employee are very unity and this also enhanced the company's ability to resist risks, in this financial crisis, the company has not received any threats comes from their staff.

Secondly, when they face the financial crisis, the decision-maker of SHANGHAI CHANGFU SHIPPING CO., LTD made good decision to make the company to avoid the risk. In early 2008, the company planned to invest 50 million Yuan to buy a 20,000T bulk carrier, and they calculate that the monthly turnover would at least reach one million Yuan, however, at the board meeting, some shareholders rejected the proposal, they believe that at that time the company has a good operating conditions, and prospects of the company are bright, but the company should have a steady development. Because of the decision-makers considered the risk on the company's developing path, it makes the company avoid the financial crisis of 2008, and it is impossible to get million monthly turnovers during that situation. This decision also makes the company to avoid falling into debt for long-term years, and operating under the loss situation.

Third, SHANGHAI CHANGFU SHIPPING CO., LTD made an appropriate adjustment in business choice. The global financial crisis was a greatly affected to the international ocean shipping; international maritime transport

industry is depressed: low freight rates, low demand and supply exceed demand. Considered these negative factors, the company chooses to turn the business focus from international transport to domestic coastal and river transport.

Global economic was malaise, but the financial crisis had a less impact on China's economy than other countries, so China's shipping industry was still in the rising phase. Domestic coastal and inland shipping business was mainly supported by steel, minerals and other cargo transportation, and domestic large steel and mine groups are mainly controlled by the state, when they faced financial crisis, national policies timely ensuring of the state-owned enterprises' normal operations and development, and now China is in an economic construction stage, which requires lots of raw materials, so it guarantee the domestic development of coastal and inland water transport. At that time, SHANGHAI CHANGFU SHIPPING CO., LTD made adjustments to the business focus in time which is very powerful for its development. Moreover, SHANGHAI CHANGFU SHIPPING CO., LTD also has a certain advantage in freight, the following table is about June 1, 2011 China's coastal shipping freight index:

Description	Previous (YYYY-MM-DD) 2011-06-01
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	Market Freight Rate (RMB/TON)	Index
COMPOSITE INDEX		1504.79
Crude oil:		1544.5
NINGBO - NANJING (2-3 0,000dwt)	60	1685.4
ZHOUSHAN - NANJING (2-3 0,000dwt)	59	1551.7
GUANGZHOU - NANJING (2-3 0,000dwt)	105	1604.63
Product oil:		1318.8
DALIAN - SHANGHAI (20,000dwt)	80/68	1183.41
DALIAN - GUANGZHOU (20,000dwt)	125/107	1055.18
TIANJIN - WENZHOU,TAIZHOU (2-5,000dwt)	153/112	1753.1
TIANJIN - SHANTOU, GUANGZHOU(2-5,000dwt)	225/155	1839.65
Metal Ore:		1152.94
BEILUN - SHANGHAI (2-30,000dwt)	18	1350.12
BEILUN - NANTONG (2-3 0,000dwt)	18	1108.32
QINGDAO - ZHANGJIAGANG (10,000dwt)	36	957.99
ZHOUSHAN - ZHANGJIAGANG (5,000dwt)	24	1186.95
Grain:		1150.42
DALIAN - GUANGZHOU (20,000dwt)	64	1148.86
YINGKOU - SHENZHEN (20,000dwt)	63	1154.07
Coal:		1773.48
QINHUANGDAO - GUANGZHOU (4-5 0,000dwt)	62	1629.4
QINHUANGDAO - SHANGHAI (2-3 0,000dwt)	53	2141.6
QINHUANGDAO - NINGBO (1.5-2 0,000dwt)	53	1581.37
TIANJIN JINGTANG-SHANGHAI(2-30,000dwt)	53	1845.92
QINHUANGDAO - FUZHOU(2-3 0,000dwt)	63	1308.01
TIANJIN - NANTONG (5,000dwt)	59	1904.51
TIANJIN - NINBO (5,000dwt)	57	1835.93

HUANGHUA -SHANGHAI (2-3 0,000dwt)	52	1699.03

Chart 12: June 1, 2011 China's Coastal Shipping Freight Index

From this table we can see that the freight of the ships in route of QINGDAO - ZHANGJIAGANG (10,000 dwt) is about 36 Yuan, MV.CHANG FU 6 (DWT 12,000), is similar with the ships not only at the size but also in the route, but the company's freight in 2011 is 40 Yuan, so the shipping company also has a certain advantage in freight.

In view of the above analysis, we can do a SWOT analysis of the company.

Chapter 3: SWOT and Decision Tree Analysis of SHANGHAI CHANGFU SHIPPING CO., LTD

3.1 The SWOT Analysis

3.1.1 Strength

First of all, like other SMEs, SHANGHAI CHANGFU SHIPPING CO., LTD have some common advantages of small and medium shipping companies:

(1) The company management costs low. Small and medium-sized shipping company has small scale, institutions, the employee of the company is limited, streamlined without historical burden, all these greatly reduces the company's daily cost.

(2) Small and medium-sized enterprises have their own strengths. Normally, the company will have one or several fixed customers, business fixed route. With fixed customers, can maintain the stability of the supply of basic source of profits, guarantee; Business fixed routes, can develop relationships with ports, do early outfit, shorten operating cycle early discharge.

(3) The company is small, it can change business strategy quickly when market changes, it has strong adapt ability, especially in market competition, pricing strategy, can react more rapidly acquired new shipper and the faster the transportation supply stable. With these three advantages of small and medium-sized enterprises and shipping will be very good "expenditure", and firmly get investment returns.

Then, it also has its own unique advantages:

(1) Business decision makers have a good risk-averse decision-making capacity, the company signed long-term cooperation contract before the financial crisis with the Wuhan Iron and Steel, Maanshan Steel, Baosteel and other large steel mills, so that in the next five years the company has a relatively stable source of business and thus the current economic environment in a dominant position in this industry.

(2) The company has a low liability ratio when they facing the financial crisis and it do not impact much by the financial crisis. Moreover, the company's cash flow is stability.

(3) Have Freight Advantage.

3.1.2 Weaknesses

Like strength, SHANGHAI CHANGFU SHIPPING CO., LTD also has some common disadvantages of small and medium shipping companies:

- (1) Individual effort is less preferable. Because of its own carriage ability is limited, lack of control ability, it is unequal with the large shippers when negotiations. The power of the unequal and may cause potential danger of customer loss.
- (2) It has a heavy security presence. When they established, in order to reduce investment, mostly will buy the ship which has high average age to reduce cost, it also may turn to hire low wages crew, and these are brought serious security hidden danger to shipping enterprise.
- (3) Often alone to bear risks. Due to the insurance company refused to cover for high-risk ships; in addition, hire the crew with low wages, and low wages means low level, low quality, this will give ship management bring many

problems.

(4) The ability to through the bottom of the shipping industry is limited.

(5) It is difficult to financing. Because shipping enterprise belong to the characteristics of capital-intensive industries, enterprise development without financial support is very difficult, at present Banks provide loans were very small to small and medium-sized shipping enterprise, and has high conditions, it cause shipping enterprise development very difficult.

Then, it has its own unique weaknesses:

(1) Investment direction is not clear. Although the company's current cash flow is adequate, the current direction of investment is not clear, the wrong direction of investment will give the company a huge loss, not only the make the company into the risk of shortage of funds, but also make the company's current stability development trend to be affected, it also affect the confidence of corporate decision makers.

(2) The company is lack of talent. Because SHANGHAI CHANGFU SHIPPING CO., LTD is a private owned shipping company, it is not like some large state-owned shipping companies which have a wide operating platform and powerful economic strength; it can not attract some administrators who

have rich experience and high-quality of the shipping company management.

The company is lack of higher quality managers.

(3) The company has a slow pace of development. Due to limited funding, the company develops very slowly, and it needs to use a very long time to developing and expanding, then becoming a large shipping company.

3.1.3 Opportunities

While SHANGHAI CHANGFU SHIPPING CO., LTD exist several weaknesses above, in the current economic environment, there are still have many opportunities:

(1) The external environment.

SHANGHAI CHANGFU SHIPPING CO., LTD is located in China's economic center Shanghai and Shanghai is located in the Yangtze River estuary, backed by the most economically dynamic Yangtze River Delta region, the strong economic hinterland provides a powerful supporting to Shanghai Port's economy. In recent years, China has made a clear goal that to construct Shanghai international shipping center. In the future, Shanghai international shipping center will be based on the comprehensive experimental zones of international shipping services to build the industrial chain to expand the point to the area to promote the shipping service elements of the gathering, and to build a fully functioning shipping services industry. And this certainly is SHANGHAI CHANGFU SHIPPING CO., LTD's new development opportunities.

(2) The company's own factors.

The cargo owners of the company's services are large state-owned steel mills, power plants etc, and they established long-term cooperation relationships. First of all, at the present stage, China is in the economic construction period, government invested a lot of capital used in the construction of the national infrastructure, and the iron and other mineral resources, which as a raw material used for construction, the demand of it is very large, therefore, demand of ore of steel mills are increased, which is a good time for SHANGHAI CHANGFU SHIPPING CO., LTD to accumulated

capital. Secondly, China's current electricity consumption is increasing very fast, which lead the demand of coal is raising, and this is also an opportunity to SHANGHAI CHANGFU SHIPPING CO., LTD, which core business is coral transportation.

3.1.4 Threats

Finally, let us focus on the threats of SHANGHAI CHANGFU SHIPPING CO., LTD:

(1) The external environment.

First, in the current economic environment, the global economy just out of the financial crisis and it is a big challenge for small and medium shipping companies to find a way out of this depression economy situation.

Secondly, for SHANGHAI CHANGFU SHIPPING CO., LTD, in the shipping field, there are so many state and other world-class shipping companies such as: COSCO, China Shipping, Muskie, etc., which gave the company a great threat, and it is a huge challenge for SHANGHAI CHANGFU SHIPPING CO., LTD to compete with these large international shipping companies.

Finally, in Shanghai, there are countless small and medium enterprises as SHANGHAI CHANGFU SHIPPING CO., LTD, which of course, as an outside competition threat exist.

(2) The company's own factors.

SHANGHAI CHANGFU SHIPPING CO., LTD's current financial situation is an internal threat to the company's future development.

3.1.5 Establish the SWOT Matrix

<i>The SWOT Matrix of SHANGHAI CHANGFU SHIPPING CO., LTD</i>	<i>S (Strength)</i>	<i>W (Weakness)</i>
	1. The company management costs low. 2. Have one or several fixed customers, business fixed route. 3. Has strong adapting ability. 4. Signed long-term cooperation contract with large steel mills. 5. Do not impact much by the financial crisis. 6. Purchased a 12000T CCS bulk carrier.	1. Individual effort is less preferable. 2. It has a heavy security presence. 3. Often alone to bear risks. 4. The ability to through the bottom of the shipping industry is limited. 5. It is difficult to financing. 6. Investment direction is not clear. 7. The company is lack of talent. 8. The company has a slow pace

	7. Have Freight Advantage.	of development.
<i>O(Opportunity)</i>	<i>S+O:</i>	<i>W+O:</i>
<p>1. The external environment: Geographical advantages, Shanghai international shipping center.</p> <p>2. The company's own factors: The demand of iron and coal is very large.</p>	<p>1. Play the advantage of low operating costs, high freights and has a number of regular clients, to increase investment in the fixed routes.</p> <p>2. Utilizing the opportunity of current infrastructure's development, and focus on the core business, like the ore transportation.</p>	<p>1. Select the correct direction of investment, such as the shipbuilding.</p> <p>2. Exploit opportunities, and stable development.</p>
<i>T(Threats)</i>	<i>S+T:</i>	<i>W+T:</i>
<p>1. The current economic environment is not good.</p> <p>2. COSCO, China Shipping, Muskie, etc.</p> <p>3. The countless small and medium enterprises.</p> <p>4. Its financial situation.</p>	<p>1. Developing the internal transportation at this time and do not developing the international trade transportation, trying to avoid competition with large shipping companies.</p> <p>2. Exploit the unique advantages, such as the transportation capacity advantage, and stand out of ranks of the small and medium</p>	<p>1. Do not blindly development; control the growth rate, and steady progress.</p> <p>2. Attention to the company's financial problems.</p>

	shipping companies.	
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3.2 The Decision Tree Analysis

According to the above analysis we know that, at this time the most problem for the company is the investment direction is not clear. So, in order to avoid blind investment which can bring a great risk to the company, we should make an analysis about the company's investment direction. In the current situation, the company's mainly investment path is to build a bulk ship. So which types of ship they should invest and how much of the ship's deadweight is our current needs analysis.

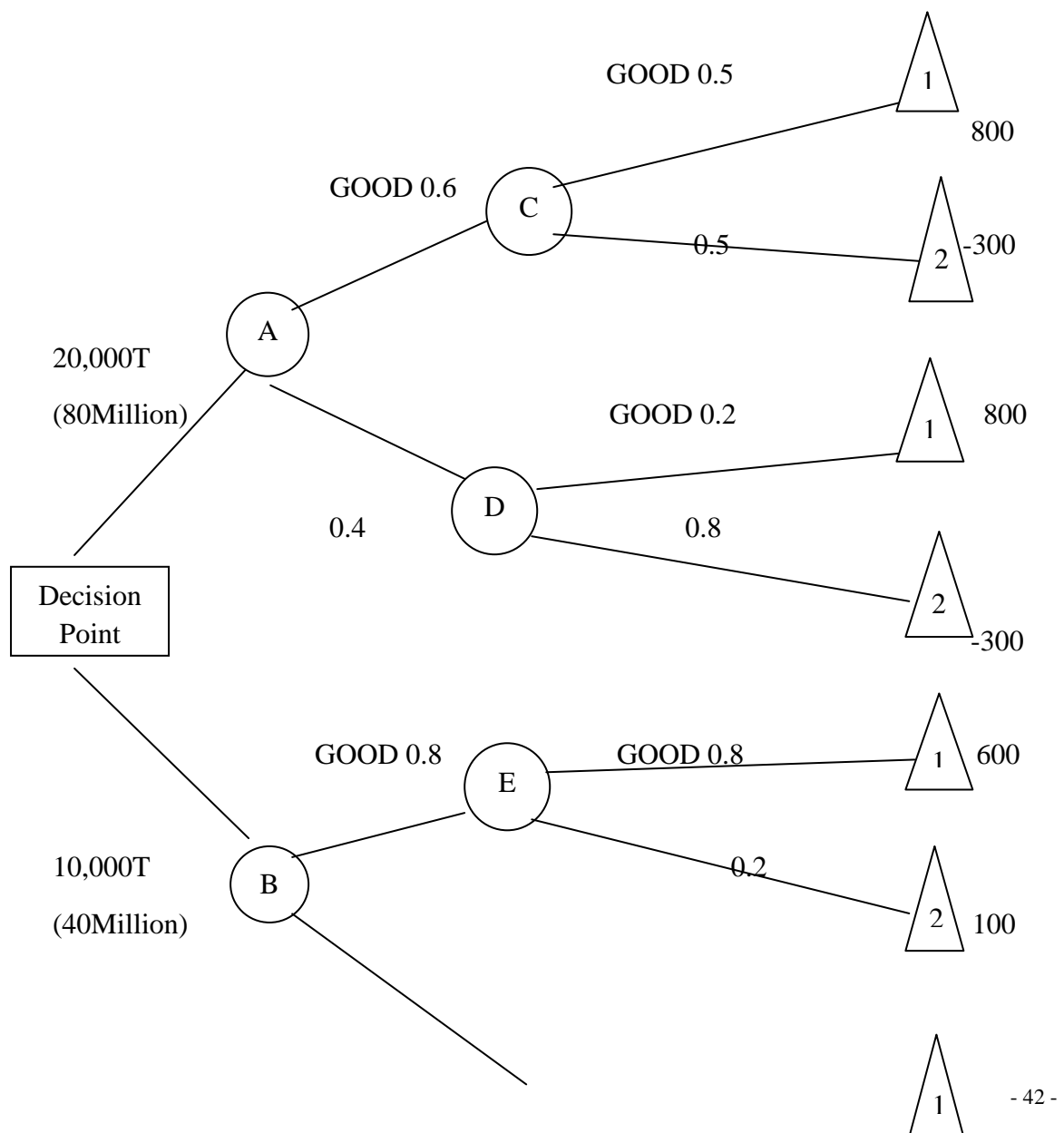
Now, we know that, the company's mainly transportation is the iron and coal transportation, so it is undoubted that they should build a special bulk carrier for their cargo. In the company, there have two different views, some of people say that they should build a big bulk carrier, nearly about 20,000T; However, others think that they can not by a too large one, only about 10,000T to 15,000T is enough.

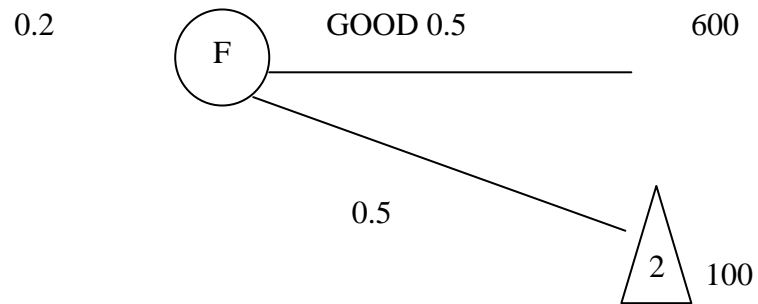
So the deadweight of the ship is our key consideration. Next, we will use the decision tree to make a simple analysis for the deadweight of the ship they will build. Because of the core business of them is coastal and inland water transportation. The ship they use will be not very big, always no more than 20,000T. We can choose one from 10,000T and 20,000T based on the decision tree analysis.

If the company prepared to invest 10000T bulk carrier, the initial capital is about 40 million Yuan; if the company prepared to invest 20000T bulk carrier, the initial capital is about 80 million Yuan. The shipbuilding periods were about 1 and 1.5 years. After the operation, validity is about 20 years, after a market survey, in the former decade, the probability of big ship operators about 0.6, and the small one is about 0.8; a bad probability of operation were 0.4 and 0.2; If the first decade has a good operation, then the second decade operation in a good probability are 0.5 and 0.8, respectively; the first decade of operation is bad, then it has a good operation's probability are 0.2 and 0.5. After investment in the two programs, the annual gain or loss, respectively are, making the big ship, the good operating income is about 800 million / year and the bad operating loss is about 300 million / year; build a small ship, the good operating income is about 600 million / year and the bad operating also can get income is about 100 million / year. And which

can gain much benefit as our aim.

We can draw the decision tree as follows:





Then, we can calculate the Expected value of these points (E):

20,000T:

$$E(AC1) = 800 \times 0.5 \times 10 + 800 \times 0.6 \times 10 = 8800$$

$$E(AC2) = (-300) \times 0.5 \times 10 + 800 \times 0.6 \times 10 = 3300$$

$$E(AD1) = 800 \times 0.2 \times 10 + 800 \times 0.4 \times 10 = 7200$$

$$E(AD2) = (-300) \times 0.8 \times 10 + 800 \times 0.4 \times 10 = 800$$

10,000T:

$$E(BE1) = 600 \times 0.8 \times 10 + 600 \times 0.8 \times 10 = 9600$$

$$E(BE2) = 100 \times 0.2 \times 10 + 600 \times 0.8 \times 10 = 5000$$

$$E(BF1) = 600 \times 0.5 \times 10 + 600 \times 0.2 \times 10 = 4200$$

$$E(BF2) = 100 \times 0.5 \times 10 + 600 \times 0.2 \times 10 = 1700$$

Based on the above calculate, we can see clearly that the 10,000T bulk carrier can get the most expected value. And the 10,000T bulk carrier also saves

company's funds and reduces its debts; of course it can get the most profits for the company, and this is which we most considering. Although the above calculation is our assumption, it also can also explain that the company should choose the smaller vessels as their shipbuilding strategy and have a stable development, due to these data are derived from SHANGHAI CHANGFU SHIPPING CO., LTD, so they have enough persuasive.

3.3 Strategy Choosing

For the above strategy analysis, we can make a strategy choosing for the company.

First of all, SHANGHAI CHANGFU SHIPPING CO., LTD should develop according to its own characteristics and the current economic situation; and it should make the funds mainly invested in Maanshan Iron & Steel's iron ore transportation. On the one hand, the route is fixed, and has stable income; the stable profits can help the company through the bottom of the economy smoothly. On the other hand, Maanshan Iron & Steel is a large state-owned steel mill, which can provide adequate cargo supplying, and it is one of the company's key customers, keep long-term friendly relations of cooperation with them can give a great help to the company.

Then, the company should focus on the stable strategies during its strategy choosing progress, such as not blindly to build a large Bulk Carrier, and should take the needs of Maanshan Iron and Steel Groups as a benchmark to

constructing a suitable small Bulk Carrier. On the one hand, this choice can saving the company's cost; on the other hand, it makes the company's debt ratio as low as possible, and to enhance the company's ability to resist risks.

Although SHANGHAI CHANGFU SHIPPING CO., LTD should avoid risk investment at this stage, it still can do some chartering business, first of all, charter, which is different from buying a carrier, do not need a huge capital investment, and can obtain a certain income in a relatively short period of time; it also can be used as company's main business income supplement. Then, the company has been maintain good relations with many ship-owners and cargo owners, so the chartering can be done very well, and in the future it can become one of the company's main businesses.

Reputation, which is said the extent of an organization known by the public, and the breadth and depth of social impact, that is, an objective evaluation of the size of the scale of reputation. Reputation is very important to a company; a good reputation is conducive to the company's long-term development. For SHANGHAI CHANGFU SHIPPING CO., LTD, it is undoubted that enhance her reputation in the shipping field can promote its future development and growth. In the long term, enhance the company's brand effect is an important issue to the company's decision makers should considering, if the company want to do large, the

company's reputation is very important, to establish a good reputation in the shipping industry can increase the company's credibility, and can give long-term stability customers and to ensure the company's long-term stability development.

Chapter 4: Solutions and Suggestions to SHANGHAI CHANGFU SHIPPING CO., LTD under the current economic environment

4.1 Principles of economic breakthrough to the company

Finally, we can look at the previous people who give some points for the small and medium shipping companies to break out of the unfavorable economic environment, and wish to play a reference role in the developing of SHANGHAI CHANGFU SHIPPING CO., LTD.

Rules of following, that is, or following the well-known shipping companies, in order to learning the tactical or operational tools of well-known advantages of the shipping companies, following behind the large shipping companies, and learn from their success approach, and to developing their own strategies. So they can avoid the risks during the developing period.

Rules of focusing, that is to use the advantages of the company or the strongest advantages they have, to focus their all forces on a centralized point to breakthrough. In general, small and medium shipping

companies usually used methods include the following ways:

First, Business Focusing: Through to have a comprehensive analysis of their own businesses, and to find its unique advantages, just like some specific transport (such as steel, iron ore), and has the price or other advantages, then concentrated all their resources: human, material and financial to have a key breakthrough to make it become their core business. For example, one shipping company has its unique advantages in the steel price, it has the lower tariffs, fast transportation, and then they can concentrate their resources in the steel transport.

Secondly, Market Focusing is to concentrate the enterprise's internal resources and to make a centralized strategy for the market, focused on a position to have an absolute advantage.

Rules of Differentiation, we know that if a product is not specificity which means that it is not a competitive product in the market, also, if a company do not have personality and characteristics business which is not a competitive company in the market, as small and medium enterprises have a huge gap in all aspects with the large shipping companies, if they do not have difference and characteristics compared with the big shipping companies, how can the cargo owners recognize your business, and choose your

company's transportation. Therefore, small and medium shipping companies need to find another way to avoid face to face with the strong competition come from competitors, by their own individual characteristics, such as providing its own unique and personal things, to have personality and characteristics strengths to breakthrough by themselves. Generally speaking, diversity is including all aspects, it can be a price difference, transport speed, and select the business which the large shipping companies do not have.

4.2 Summary of the strategies

In the final, we can have a summary of SHANGHAI CHANGFU SHIPPING CO., LTD's strategies:

- (1) Develop according to its own characteristics and the current economic situation; and it should make the funds mainly invested in Maanshan Iron and Steel's iron ore transportation.
- (2) Minimizing the investment in other fields and reduce debt ratio, put the limited capital together and focus on advantages aspects, focusing domestic transport market, such as iron transport.
- (3) Do some chartering businesses.
- (4) Enhance the company's reputation in the shipping field.

Chapter 5: The Conclusion

In this paper, we make an analysis about corporating structure, operating status, operating capacity, and the main business of SHANGHAI CHANGFU SHIPPING CO., LTD. And we also combined with the current economic

environment, the Baltic Dry Index (BDI), analysis the company how to choose the right strategy (when to buy a ship, stable the cargo resources, etc.) to help the company to effectively avoid the risk and still be able to obtain certain profit during the financial crisis in 2008. Then through a comprehensive analysis of the company we can draw relevant conclusions: In shipping area, the SMEs' developing is mainly depending on the adequate cash flow and a stable source of goods. As the shipping industry is capital-intensive industry, which has a high capital threshold, so the above two points are the lifeblood to keep the enterprise survival and development. Finally, combined with SWOT analysis and the decision tree analysis of company's core business and the analysis of the company's financial conditions to result the conclusion, which I hope can play a reference role in the future development of the enterprise.

Through this thesis designing, on the one hand, which let me has a better understanding on the shipping industry, not only the structure of the enterprise, but also main business, and also the environment of SMEs' developing, then it also let me have a new understanding on the company's advantages and disadvantages, and the opportunities and challenges they faced; on the other hand, through this investigation, I get a lot new professional knowledge and practical working experience, and these a good foundation for my future development.

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