

Writing Instruments



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WRITING INSTRUMENTS

Supplier capability in China

EXECUTIVE SUMMARY

China's exports of writing instruments remain on the upswing, with shipments between January and May 2008 jumping 19 percent from the same five-month period last year. The industry has actually been on the growth track for several years now, with sales rising an average 25 percent annually since 2005. Export volume has been climbing at a relatively slower rate of 11 percent yearly.

The next 12 months, however, will be challenging for the mature industry as suppliers face stringent environmental and safety restrictions in the key markets of the US and the EU.

To prepare for these standards, makers are establishing testing centers and investing in research and documentation necessary for compliance.

With these endeavors requiring substantial funding, companies are anticipating steep increases in production outlay, adding to mounting pressure from soaring material and labor costs.

Companies continue to spend more for ABS and metal, which are common options for barrels. In addition, wages and other worker benefits have risen by as much as 20 percent with the implementation of the new labor contract law earlier this year.

The following are some of the key trends we see in China's writing instruments export industry:

- Prices will continue to rise in the next six months, with some suppliers implementing adjustments of as much as 10 percent to shore up margins. Aside from higher spending on materials, other factors driving the increase in quotes are the appreciation of the yuan and increasing labor costs.

- Suppliers will continue to utilize imported ink and tips for midrange and high-end pens, highlighters and markers. Upscale pencils, meanwhile, will be made of hardwood with a fine fiber grain surface.

- The selection of writing instruments from China will expand further with the introduction of models with fancy barrels and prints. Others will feature add-ons such as laser pointers and flashlights.

- Export sales will remain strong amid rising prices. Companies are anticipating at least 10 percent increase in business in the next 12 months.

This updated report focuses on ballpoint and gel pens, mechanical and nonmechanical pencils, and felt-tipped highlighters and markers, which constitute the bulk of China's exports of writing instruments.

The Products & Prices section describes each segment based on their key specifications. The type of materials and components and their sources, which are the key factors determining product performance and pricing, are likewise included in this section.

The Industry Overview discusses issues affecting production and exports, and the measures suppliers are implementing in the face of these challenges. The section also describes the composition of the manufacturing base, and the key characteristics and exporting capability of small, midsize and large makers.

China has about 3,000 companies offering writing instruments. Most are privately owned and with manufacturing and direct export capability. To remain consistent with the structure of the industry, 80 percent of profiled companies are mainland China-owned. The rest are Taiwan-, Hong Kong-, or foreign-invested.

Reflecting the industry further, more than 80 percent of suppliers are based in Zhejiang and Guangdong provinces, and Shanghai, the centers of writing instruments production in China. Details about the manufacturing and exporting industries in these hubs are discussed as well.

In this report

- 16 in-depth company profiles
- 20 short company profiles
- 131 top-selling export products
- Supplier demographics
- Supplier survey
- Industry statistics & charts

METHODOLOGY

To produce this report, Global Sources surveyed a wide range of suppliers. Rather than focus simply on high-profile makers, we compiled a representative sample of large, midsize and emerging manufacturers. All profiled companies are export-oriented professional suppliers that may or may not be clients of Global Sources.

The selection of suppliers is designed to reflect the composition of the industry in China in terms of geographic spread, business type and company ownership.

For each company profile, our research teams interviewed senior executives and export managers who discussed their recent performance and provided price, R&D, production and export forecasts for the next 12 months. The interviews were done in person, by phone or e-mail.

In each case, companies were required to answer specific questions designed to verify their manufacturing and export credentials, including their production and export statistics, and a breakdown of exports by product type and market. Our production checklist details the product-specific manufacturing capabilities of each supplier.

All suppliers participated in a survey designed to provide insight into product and price trends, and challenges facing the industry in the next 12 months. All survey questions are single choice. Results were calculated based on the actual number of valid responses to each question.

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INDUSTRY OVERVIEW

Trade statistics are pointing to another strong year for China's exports of writing instruments. Shipments from January to May 2008 have exceeded \$525 million for a 19 percent increase year-on-year. This comes after the industry met the projected revenue of \$1.2 billion for 2007 when Global Sources last analyzed it, representing 28 percent growth over sales in the previous year. In addition, the figure is 3 percentage points higher than the average annual rate of increase overseas shipments have registered since 2005.

The continuous upswing in revenue is driven primarily by rising prices even as exports in terms of volume continue to climb. In the five months ending May 2008, for example, the average per-unit-value of various categories of writing instruments jumped 29 percent. Volume, in contrast, rose a marginal 2 percent.

Prices are expected to go up steadily in the months ahead as the cost of key materials remains high.

ABS, a common option among suppliers offering ballpoint pens with plastic barrels, has soared 24 percent since the second half of 2007 and now costs about \$3,100 per ton. This translates to an additional outlay of \$0.0006 per pen based on the average per unit requirement of 8g of ABS.

Moreover, the cost of other manufacturing inputs remains high. Brass is at about \$9,150 per ton although the material has remained relatively stable in the past 12 months.

Suppliers, however, have no plans of shifting to less-expensive alternatives to ABS and metal and other conventional materials such as AS and MBS. In fact, some are expanding into the use of PLA, which is about double the cost of ABS.

PLA is a biodegradable thermoplastic derived from renewable sources and its use is geared toward efforts to expand the product line and sustain interest against any further

increase in price. Other environment-friendly options include recycled newspaper and kraft paper. Featured supplier Winbo has been specializing in pencils with barrels made of old newspaper for the past five years.

Another key factor contributing to higher prices is the appreciation of the yuan. In the first half of 2008, the value of the local currency has gone up by about 7 percent against the US dollar. This is further squeezing margins, which have been dwindling as makers endeavored to absorb additional spending for raw materials.

Rising labor outlay is adding to difficulties. In the months since the new labor contract law was enforced in January 2008, expenditure related to wages and other worker benefits has gone up by 10 to 20 percent.

Challenges in key markets

China suppliers of writing instruments will continue to target the US and the EU in coming months even as the industry faces potential obstacles to expansion in these markets.

Exports to the EU, in particular, are being threatened by REACH, which regulates the registration, evaluation, authorization and restriction of chemical substances in the region. Enforced in June 2007, the directive is now being implemented in phases.

Supplier summary

Suppliers surveyed	36
Export sales	\$203.5mn
Export ratio	84%
OEM business	53%
Capacity utilized	82%
Annual R&D spending	\$12.0mn
Full-time employees	17,838

Data: All surveyed suppliers

In light of this, China suppliers are anticipating steep increases in production costs when REACH becomes fully operational. Locally made ink, for instance, will require reformulation and subsequent testing, which will be very expensive.

Due to the significant investment that research, documentation and testing will require, however, not all companies in China have formed concrete plans toward compliance. Those that are doing so are mostly midsize or large makers, and prices at these companies are expected to increase by more than 10 percent as a result of conformance.

Suppliers not capable of meeting REACH requirements are looking at changing their target markets to regions with less-stringent requirements.

The EU currently absorbs one-quarter of China's exports of writing instruments annually. In 2007,

Major customers

Company

Everglory	Wal-Mart, Disney (US); Staedtler, Herlitz (Germany)
Kingways	Kokuyo (Japan), Sertic (Brazil), Libesa (Argentina), Noki (Turkey)
Ningbo Happiness	Auchan (France), Tesco (UK), Office Depot, Target (US)
Ningbo Hengsheng	Artico, Acco (US)
Odesun	Dollar Tree Stores Inc. (US)
Ricon	Auchan (France), Tesco (UK), Kmart (US)
Shanghai Dewen Gold	Playboy (UK), Cecop (France), Bullet Line (US), Samsung (South Korea), Toyota (Japan)
Winbo	McDonald's, Nestle, Coca-Cola, Pepsi, Disney, Snoopy, Garfield (US); Sanrio (Japan); Carlsberg (Denmark)

Data: All surveyed suppliers

Aplus Stationery & Promotion Co. Ltd

Aplus was established originally as a trading company in 1995. More than a decade later, it set up a 240sqm factory in Hangzhou, Zhejiang province, for the assembly of plastic ballpoint pens. Versions with metal barrels are outsourced together with pencils.

Sales of all products totaled \$5 million in 2007, with writing instruments accounting for 80 percent. All output in the line was exported, primarily under ODM contracts. Ten percent of shipments were unbranded.

Aplus will be boosting exports to the Middle East in the year ahead and is expecting revenue to jump by more than 20 percent.

Catering to the midrange promotional markets, the company's writing instruments conform to the EN 71 standard.

Ballpoint pens make up the bulk of exports. Models have ABS, AS or metal barrels and adopt mainly imported ink. Priced from \$0.07 to

\$1 per piece, most designs come in retractable type and feature pad printed or silk-screened logos.

Ballpoint pens made of recycled materials such as PLA, and invisible ink and LED-fitted models are also available.

Pencils are a secondary line, representing only 5 percent of shipments.

Five QC personnel inspect finished products manually to ensure quality.

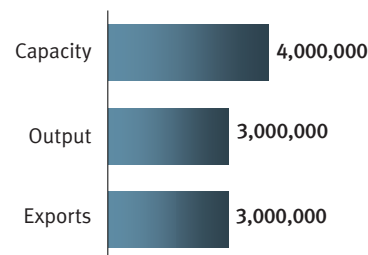
Aplus allocates about 2 percent of revenue in R&D annually. It works closely with customers and local design companies for product development. Ten new models are released each month.

Prices are anticipated to increase by 5 to 10 percent in the next six months mainly because of the appreciation of the yuan.

The company will boost capacity by 20 to 50 percent and will be putting up a printing workshop in the year ahead.

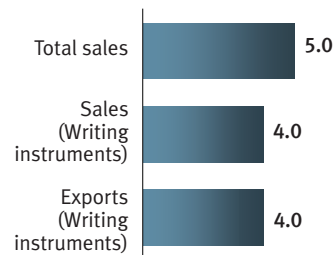
Production

pieces/mth



Sales

\$mn/year



Profile

Company facts

Year established	1995
Business type	Manufacturer
Company ownership	Mainland China-owned
Head office location	Hangzhou (Zhejiang)
Factory location(s)	Hangzhou (Zhejiang)
Total factory area	240sqm
No. of full-time employees	35
Annual sales (all products)	\$5.0mn
Annual R&D spending	\$0.12mn
ISO certification	Pending

Sales & output: Writing instruments

Annual sales	\$4.0mn
Share of total sales	80%
Annual export sales	\$4.0mn
Total monthly capacity	4,000,000 pieces
Average monthly output	3,000,000 pieces
Capacity utilized	75%
Average monthly exports	3,000,000 pieces
Export ratio	100%
OEM % of exports	40%
ODM % of exports•	60%
OEM % of exports	—

• 10% unbranded

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Capability

Production checklist

In-house R&D/design staff	5
Production line QC staff	5
Makes ink in-house	No
Makes tips in-house	No
Makes lead in-house	No
In-house printing facility	No
Ink-injection machines	—

Exports by product

Ballpoint pens	95%
Gel pens	—
Mechanical pencils	—
Pencils	5%
Highlighters & markers	—

Exports by market

North America	50%
European Union	40%
Europe (non-EU)	10%
Asia/Pacific	—
Middle East	—
Other	—

Outlook

- **Export prices**
Increase
- **Export price increase**
5-10%
- **Export sales**
Increase more than 20%
- **Target market**
Middle East
- **Production capacity**
Increase 20-50%
- **Major challenge**
Price competition
- **Export capability**
Improve operating efficiency
- **Major product trend**
Multifunction designs

Popular export models



Ballpoint pens

Model	MG22838-6
Minimum order	5,000 pieces
Packaging type	OPP bag
Delivery time	25 days
Indicated price	•

Description: Brass barrel; retractable; silk-screened or laser-engraved logos



Ballpoint pens

Model	NB32010
Minimum order	5,000 pieces
Packaging type	OPP bag
Delivery time	20 days
Indicated price	•

Description: Notebook and pen set; ABS barrel; silk-screened or tempo printed logos



Ballpoint pen

Model	AP010
Minimum order	5,000 pieces
Packaging type	Carton
Delivery time	20 days
Indicated price	•

Description: ABS barrel; various ink colors; capped; tempo-printed, silk-screened or heat-transferred logos; with white and UV light

• Information not disclosed

PRODUCT GALLERY

Ballpoint pens



Aplus
(profile page 24)
Model: MG22838-6
Minimum order: 5,000 pieces
Packaging type: OPP bag
Delivery time: 25 days
Indicated price: •
Description: Brass barrel; retractable; silk-screened or laser-engraved logos



Aplus
(profile page 24)
Model: NB32010
Minimum order: 5,000 pieces
Packaging type: OPP bag
Delivery time: 20 days
Indicated price: •
Description: Notebook and pen set; ABS barrel; silk-screened or tempo printed logos



Aplus
(profile page 24)
Model: AP010
Minimum order: 5,000 pieces
Packaging type: Carton
Delivery time: 20 days
Indicated price: •
Description: ABS barrel; various ink colors; capped; tempo-printed, silk-screened or heat-transferred logos; with white and UV light



Guangdong Genvana
(profile page 28)
Model: K-3084
Minimum order: 50,000 pieces
Packaging type: Canister
Delivery time: 40 days
Indicated price: \$0.06
Description: PS barrel; ABS clip; 0.5mm tip; retractable; blue ink; transfer-printed logos; EN 71, ASTM



Hangzhou Ownseas
(profile page 56)
Model: OSL1001
Minimum order: 5,000 pieces
Packaging type: Polybag
Delivery time: 15 days
Indicated price: •
Description: Plastic barrel with LED light; metal clip, tip; blue, black ink; pad-printed logos; twist-type



Hangzhou Ownseas
(profile page 56)
Model: OSU1000
Minimum order: 500 pieces
Packaging type: Gift box
Delivery time: 15 days
Indicated price: •
Description: Plastic barrel with USB flash drive; metal, tip, clip, top, middle ring; black, blue ink; silk-screened logos; twist-type; metal refill

• Information not disclosed

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