

FIVE BEST PRACTICES BUYING FROM CHINA

Strategies For Success



Presented By Jim Ullum, MBA, C.P.M.
Managing Partner, Source International
Louisville, Kentucky, USA & Xiamen, Fujian, China

CHINA - PAST

Cheap & Abundant Labor - Most Export Production Was Low Value/High Labor Content
Poor Working Conditions - Mediocre Quality - Low Reliability Of Delivery
Rapid Growth Of Privately Owned Businesses - High Export Growth Rate (10%-20%)
Nation of Entrepreneurs - Wild West Mentality - Anything Goes - **Very High Risk**

CHINA - PRESENT

World's Factory - Producing Wide Variety Of Goods For All Countries Of The World
Rising Costs - Currency Appreciation - Inflation - Periodic Labor Shortages
Rapidly Changing Workforce - Increased Access To Internet - Leisure Time Focus
Improved Working Conditions - Quality That Needs To Be Managed - **Moderate Risk**

CHINA - FUTURE

Factories Continue Moving Inland - Lower Value Products Moving To Other Countries
Environmental Issues - Increased Regulation - Higher Cost of Labor (1/5 of USA)
Aging Population - Nation Of Consumers - More Labor Shortages Predicted
Increased Emphasis on Quality - Focus On Automation & Throughput - **Lower Risk**

CHINA ADVANTAGES

BUYERS NEED TO PICK THE RIGHT PRODUCTS / COMPONENTS - BEST ARE:

- High Labor And Low Freight Content Or Special Production Processes
- Higher Volume And Longer Lead Time
- Custom Production Vs Market Goods

LOWER MANUFACTURING COSTS

- Favorable Tooling Costs
- Low Cost Of Capital
- Less Vigilant OSHA Type Regulations

WELL DEVELOPED EXPORT INFRASTRUCTURE

- Transportation & Logistics
- Engineering, Quality Services & Test Labs
- Wide Variety Of Available Domestic Materials

EXPORT BUSINESS MENTALITY - LITTLE CORRUPTION

EFFICIENT DUTY DRAWBACK PROGRAM ON IMPORTED MATERIALS RE-EXPORTED

CHINA CHALLENGES

- **SUPPLIER QUALIFICATION & MONITORING** (Differences In Quality Standards)
- **DIFFERENCES IN MATERIAL STANDARDS** (Steel, Other Alloys)
- **DIFFERENCES IN UNIT OF MEASUREMENT** (Metric Versus Imperial)
- **CURRENCY FLUCTUATIONS & INFLATION** (RMB Appreciation & Labor)
- **CONTROL OF QUALITY** (Less Robust QMS / Fake ISO & Material Certifications)
- **CONTROL OF DELIVERY** (Lead Time, Production Queues & Capacity)
- **COMMUNICATIONS BARRIERS** (Language Translations & Interpretations)
- **COMPLEX TOTAL LANDED COST CALCULATION** (Make Vs Buy)
- **INTELLECTUAL PROPERTY PROTECTION** (Designs & Technology)
- **INTERNAL COMPANY RESISTANCE TO CHANGE** (Radical Patriots)

MEETING EXPECTATIONS

In REAL ESTATE, It's...*Location, Location, Location*

In SUPPLY MANAGEMENT, It's...*Price, Delivery, Quality*

PRICE

DELIVERY

QUALITY

In CHINA, It's Often...Pick Any Two!

FIVE BEST PRACTICES

1. DEFINE CLEARLY WHAT YOU WANT
2. SHOP AROUND
3. TRUST BUT VERIFY
4. CONSIDER TOTAL COST
5. TIE PAYMENTS TO QUALITY APPROVALS

BEST PRACTICE #1

DEFINE YOUR PRODUCT

QUANTITY & PACKAGING:

- What Is The Minimum Quantity You Can Buy? (FCL vs LCL)
- How Do You Need The Product Packaged? (Retail Sales vs Internet Sales)

PRODUCT SPECIFICATIONS:

- Market Goods or Custom Production.
- Material Specifications: Research What Are The Industry Standards (H,M,L)
- Function & Performance: What Are The Specifics Your Customers Expect.
- US CPSIA Requirements: The Burden Is On You As The Importer.

DEVELOP A DETAILED "TECH PACK"

- Bill of Materials
- QA Specs For Appearance, Workmanship, Performance, Packaging
- Quality Plan, Testing and Certifications Required.

THEY ARE SELLING YOU WHAT THEY PRODUCE NOT NECESSARILY WHAT YOU NEED

BE AWARE - FRIENDLINESS DOES NOT EQUAL COMPETENCE

BEST PRACTICE #2

SHOP AROUND

REQUEST FOR QUOTATION

- Include Your "Tech Pack" & Your MOQ Requirements.
- Choose 3-5 Qualified Suppliers - Traders or Factory Direct.
- Protect Your Intellectual Property With NDA or Other Agreements.

SUPPLIER QUOTATIONS

- Cost Breakdowns - Your Form vs Their Form.
- Be Sure You Know The Quote Basis (Exchange Rate, Validity, Material Basis).
- Understand Any Additional Costs For Tooling Or Samples.

COMPARE QUOTES "APPLES TO APPLES"

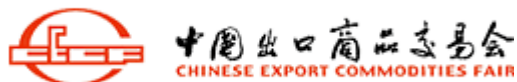
- FOB PORT vs EX FACTORY vs CIF
- Payment Terms (LC vs 30/70 vs 50/50)
- Lead Time For Tooling, Samples & Production

LOWEST PRICE MIGHT NOT BE BEST DEAL - DETERMINE SUPPLIER QUALIFICATIONS

COMPARE RESPONSE TIME & SERVICE LEVELS - ALL VENDORS ARE NOT EQUAL

SOURCING RESOURCES

Trade Shows



Canton Fair, April & October, Guangzhou

www.cantonfair.org.cn



China Investment Fair, September, Xiamen

www.chinafair.org.cn



Source Direct Show, February, Las Vegas

www.chinafair.org.cn

Plus Other Industry
Specific Trade
Shows

Websites



www.alibaba.com



www.made-in-china.com



www.globalsources.com



www.tradeeasy.com

Trade Organizations



Hong Kong Trade Development Council

www.hktdc.com



Taipei World Trade Center

www.twtc.org.tw

Plus Other
Industry
Specific Trade
Organizations

BEST PRACTICE #3

TRUST BUT VERIFY

Set Delivery Milestones In The Beginning Based On Vendor Quote

- Receipt Of Key Raw Materials Or Components
- Production Start-up
- Receipt Of Packaging Materials
- Production Tracking Throughput

Know Where Your Product Is Being Produced & Level of Subcontracting

Require Frequent, Consistent Weekly Production Reporting

Focus More Effort On First Time Production - New Vendors & New Products

There Is No Substitute For In-Factory Monitoring Of Production

Delays Are Common -Build Extra Time Into The Schedule

BEST PRACTICE #4

CONSIDER TOTAL COST

Choose Products Or Components With Highest Chance Of Success First
(High Volume, High Labor, Low Freight Content Or Specialty Processes)

Set Reasonable Cost Savings Targets

Understand Your Total Landed Cost To Your Warehouse

- Delivery Options - Incoterms® (Most Common Are: FOB, EXW, DDP, CIF)
- Payment Terms
- Third Party Auditing, Inspection & Testing
- Freight (China Domestic, Ocean, USA Domestic)
- USA Customs Duty & Brokerage Costs
- Cost Of Capital (Longer Lead Times, Higher Inventory Levels, Defects)

Understand Chinese Negotiation. Patience, Patience, Patience.

Think Mutual Benefits - Be Tough But Fair - Think Win / Win.

Build Relationships With Clear Communications, Listening & Respect.

BEST PRACTICE #5

TIE PAYMENTS TO QUALITY APPROVALS

Define Expectations & Requirements In The Very Beginning

- Overall Quality Standards, Inspection, Testing & Certifications
- Delivery Requirements
- What Happens When Requirements Are Not Met - Penalties, Air Freight

Tie Payments To Milestones Of Quality Inspections, Certifications, Delivery & Other Key Deliverables

Require A Certificate Of Inspection and/or A Certificate Of Compliance As Critical Document To Get Paid.

Get it In Writing (Bilingual) - Signatures & Chops Are Powerful.

Remember That Any Bad Shipment Can Quickly Offset Savings.

BEST PRACTICES SUMMARY

1. **DEFINE CLEARLY WHAT YOU WANT**: Make sure you define in writing what are the specific requirements that you have for the Appearance, Workmanship, Performance, Packaging and Testing.
2. **SHOP AROUND**: Its best to seek quotations from at least 3 qualified suppliers but the lowest price may not always be the best deal. Know who you are dealing with.
3. **TRUST BUT VERIFY**: Often times things in China are not what they seem so be sure to know who you are dealing with and qualify that they are reliable and can produce the quantities and quality that you need. And protect your intellectual property.
4. **CONSIDER TOTAL COST**: Many times there are hidden costs in dealing in China so make sure you include all the costs of qualifying, inspecting and shipping. Forgetting any one of these can jeopardize any savings that you hope to realize.
5. **TIE PAYMENTS TO QUALITY APPROVALS**: In many cases, importers must pay the entire cost of the product before it ships so its critical that you tie payments to quality approvals. Delays & bad quality can quickly offset any savings.

OTHER BEST PRACTICES

Pick A Few Key Suppliers & Invest In Relationships - No Silver Bullets

Don't Assume Anything

Use Cost Estimation Modeling To Determine Material, Machine & Labor Costs

Price Must Be Fair To Be Sustainable & To Avoid Bait & Switch

Price Changes - Tie Price To Benchmarks Of:

- Material Commodities Indexing
- Labor & Overhead
- Currency Exchange Rate
- Value Added Tax Rebates
- Any Other Important Component Of Cost

Protect Yourself - Your Supplier May Want To Become Your Future Competitor

Use Bilingual Agreements To Minimize Misunderstandings

CULTURAL ASPECTS OF DOING BUSINESS IN CHINA

Losing Face

Patience, Patience, Patience

Anger Management-Chinese Style

Similar Is Not Always Similar (Cha Bu Duo)

Long-Term Relationship Thinking (Guan Xi)

"Tomorrow" Only Means *Not Today* (Ming Tien)

Never Say No (Ke Yi)...The Reasonableness Test

Feng Shui, 8's, 4's, Auspicious Days And Other Oddities!

"No Problem" Often Means "Know Problem"! (Mei You Wen Ti)

Traditional Holidays- Lunar New Year (February), Labor Day (May),
National Day & Mid Autumn Festival (October)



Source International is one of the largest supply management companies in North America providing global manufacturing outsourcing with offices in Louisville Kentucky and Xiamen, Fujian Province, China and operations in mainland China, Thailand, Bangladesh and Taiwan.

We apply American management expertise to foreign manufacturing, giving companies all the benefits of substantial cost savings and supply, coupled with systems and methodology that assure your specifications and standards will be matched or exceeded. When you partner with Source International, we strive to make sure that there are no misunderstandings about manufacturing standards or concerns about raw material availability or quality. And, no substandard workmanship or delivery logistics black holes. We are your eyes and ears and boots on the ground in Asia to guide you through what is, for us, familiar territory.

Since 1989, Source has been responsible for over \$4 Billion in shipments from Asia and has achieved industry-leading metrics for on-time shipments with extremely low defect rates. Our track record speaks for itself and is a testament to the value Source adds to the supply chains of its customers. While our size and volumes have steadily grown over the years we remain totally dedicated to exceeding the expectations of our customers.

Source also has developed and maintains a proprietary cloud based platform, Source Information System (SIS), that helps customers eliminate the gaps in the product concept to delivery process and provides real time, end-to-end visibility on the status of all supply chain activities through a private secure portal. From the web site at a click of the button, our customers have at their disposal information on all engineering data, product quotations, new product development, product samples, specific purchase order production status, product inspection reports and shipping data for all products.

So, harness the competitive power of global manufacturing through Source International and give your company the competitive edge. We welcome the opportunity to show you how we can add value to your supply chain just like we've done for our other satisfied customers throughout the years.



SOURCE
INTERNATIONAL

www.sourceint.com | jimu@sourceint.com



Author's Bio:

JIM ULLUM

jimu@sourceint.com



25 + Years Of Experience In Global Supply Management & New Product Development

1998 - Present: Source International (Louisville, Kentucky & Xiamen, China).
Supply Management & Contract Manufacturing Services.

1995 - 1998: Burger King Restaurants (Miami, Florida).
Kid Club Premium Toy Program

1990 - 1995: Teleflora & Paramount Farms (Los Angeles, California).
Floral Container Gift & POP Marketing Programs

1985 - 1990: Bright Of America/Lincoln House (Summersville, West Virginia).
Catalog Gift Programs

MBA and BA from West Virginia University

Certified Purchasing Manager (C.P.M.) - Institute Of Supply Management

Practitioner, Educator, Entrepreneur