

The 5 Biggest Challenges
in Importing from China

By Renaud Anjoran

Fall 2014

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Constantly Rising Prices

Constantly Rising Prices

Over the past 5 years:

➤ Rising RMB/USD rate + Rising labor costs + Rising raw material costs.

Know the market price

➤ Ask quotations to several suppliers.

➤ Check the prices of the main components.

You might have a few arguments in your favor. It is up to the factory to give a detailed justification for price increases!

➤ Maybe your volumes have increased.

➤ Maybe you have been a regular customer.

An Example with Labor Costs

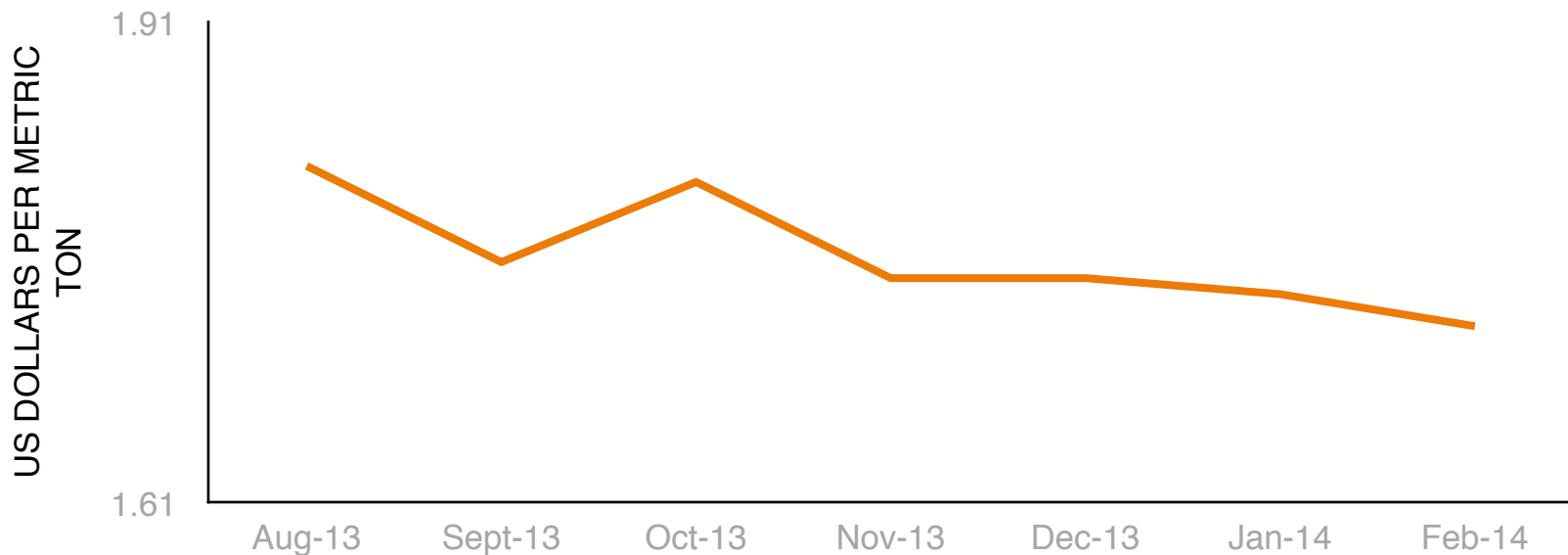
- Labor might represent 20% of their total cost.
- The main material might represent 50% of their total cost.
- The factory wrote “salaries went up 20%”.
- Result: the total cost is only up by 4%, since what represents 20% of their cost is up by 20%.

An Example with Raw Materials

- An importer purchased products made of aluminum, and the factory claimed that aluminum was more and more expensive.
- These data can easily be checked on the internet!

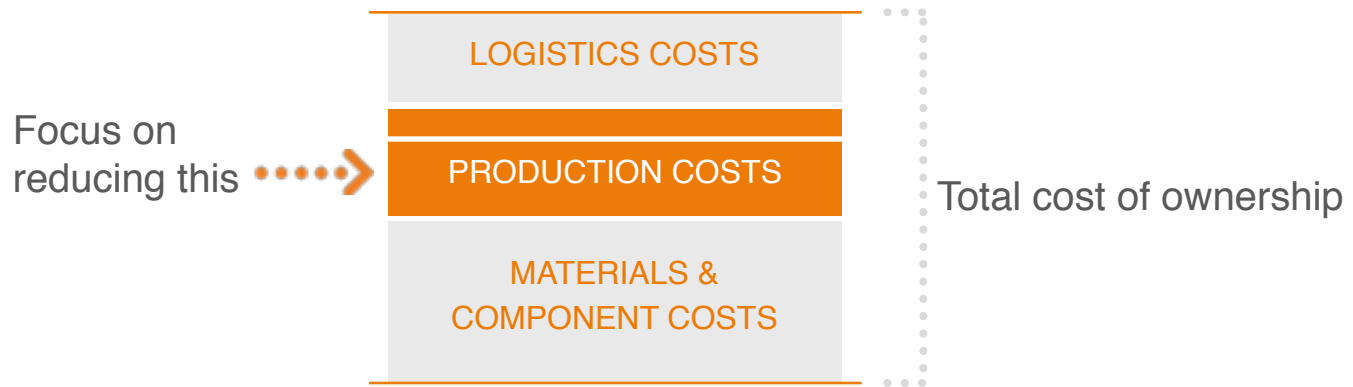
RANGE 6m, 5y, 10y 15y 20y 25y 30y

Aug 2013 – Feb 2014: -121.070 (-6.67%)



Reducing Costs

TRADITIONAL SOURCING APPROACH



“TOTAL COST OF OWNERSHIP” APPROACH



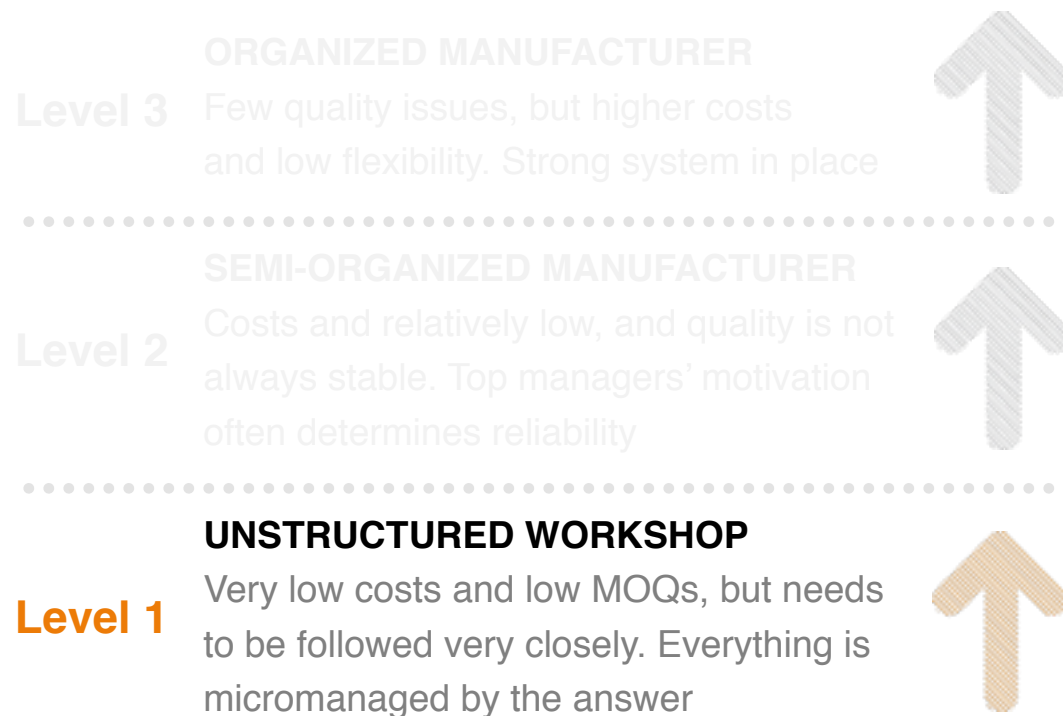
Changing Suppliers

What type of factory will offer lower prices?



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General Advice

What to do if...

- If your orders are very small?
- If your orders are large enough to work directly with a manufacturer, but not big enough to be interesting to big factories?
- If your orders are considered large and you find the big companies actively fighting for your business?

Substandard Quality

Qualifying Suitable Manufacturers

Professional auditors usually check the following elements:

- The facilities and equipment.
- The system.
- Basic information such as the size, the main products, etc.

A factory might have perfect systems, workforce, and machines, but they might decide to cheat their customers.

Talking to salespeople on a booth is not sufficient. **You need to qualify the manufacturer.**

Defining your Quality Standard

- Communication is key – but you cannot rely on the supplier's salesperson to translate your requirement exactly.
- Will mass production look like the “golden samples”? Of course not.

Buyers need to formalize their requirements in three ways:

- With a written specification sheet.
- With pre-production samples.
- With a list of defects.

Example of Product Specifications Sheet

| CHECKPOINT | REQUIREMENT | SAMPLING |
|--|--|----------|
| Total product size | Length: 29.5mm +/-5% Width: 25mm +/-5% Height (top position): 88.4mm +/-5% | 5 pcs |
| Lipstick size (with plastic holder) | Height (top position): 76.5mm +/-5% Height (original position): 57.6mm +/-5% | 5pcs |
| Diameter of lipstick | 12mm +/-5% 20g +/-5% | 5 pcs |

Total product net weight



5pcs

Example of Defect List

| DESCRIPTION OF DEFECT | CATEGORY | | |
|---|----------|-------|-------|
| | CRITICAL | MAJOR | MINOR |
| The sample color should match the signed sample. | | ✓ | |
| There shouldn't be any insects or hair in the package or product. | ✓ | | |
| Pitting, blemish, scratches, strain, all parts need to be kept clean. | | | |
| a. Pitting, stains (can be cleaned), scratches (less than 8mm) counted as Minor; | | ✓ | ✓ |
| b. Scratches (more than 8mm), stains (can't be cleaned), counted as Major; | | | |
| Excessive flash (more than 1mm), count it as major, otherwise, count it as minor. | | ✓ | ✓ |
| If anything is wet (products, packaging), count it as critical. | ✓ | | |

Setting Acceptance Quality Limits

- You'll need to set the AQL limits (i.e. tolerances for defects) that correspond to your quality standard.
- Do the “standard” AQL limits (2.5% for major defects and 4.0% for minor defects) apply to you?
- You might end up in a situation where you need to accept low quality “exceptionally”.

Monitoring Production Closely

- Checking earlier is better. This is very important for the first order with a new factory.
- Catching problems early gives you the time to study the problems, to tell the factory what is not acceptable, to look for countermeasures and test them, and to adjust your schedule.



Shipment Delays

Discussions about Lead Times

Always keep in mind these two pieces of advice:

- Whatever they promise you, add 3-4 weeks to your internal planning if they are a new supplier.
- When you discuss timing, always remind them that quality needs to be maintained to the approved standard.

What Causes Delays?

In the sourcing phase and during new product development projects, the supplier has an interest in acting fast.

Once an order gets into production, buyers often make the mistake of simply waiting for shipment.

Sources of delay:

- Shopping for a good deal on components.
- Poor planning.
- Complexity in production that was not forecast previously.
- Quality issues that need correcting.

Managing Production Delays

How do Suppliers Communicate Delays to the Buyer?

- If they see they will be 2 weeks late, will they announce it to their customer?
- Usually no. It can turn into a very frustrating game.

Threat of Penalties

- Many buyers who write this term on their purchase order: “Penalty: 1 week late 5% of the order, 2 weeks late 10%...”.
- But very few actually try to enforce it. It is useful as a threat.

Letters of Credit

A letter of credit has two advantages when it comes to preventing delays:

- It has an expiry date.
- No deposit is wired.

A “Project Management” Type of Follow Up

Very few suppliers keep their customer updated along the production cycle. It is up to you to push them for information.

| MILESTONE | TARGET | ACTUAL | Δ | COMMENTS |
|----------------------------|---------|---------|----------|------------------------------------|
| All components purchased | Oct. 6 | Oct. 9 | +3 | Buyer's deposit received on Oct. 8 |
| All components received | Oct. 12 | Oct. 17 | +5 | |
| Start of mass production | Oct. 14 | Oct. 24 | +10 | Our workshop is very busy |
| Production samples sent | Oct. 21 | | | |
| 20% of pieces are finished | Oct. 21 | | | |
| Packing starts | Oct. 25 | | | |
| Final inspection | Oct. 28 | | | |
| Shipment date | Nov. 5 | | | |

Violation of IP rights

Violation of IP Rights

The situation

- Many Chinese companies still have a strategy that involves the infringement of foreign brands' IP rights.
- Most cases of IP infringement involve the original supplier/manufacturer.

Examples of good signs:

- They don't show other customers' designs in their showroom/booth.
- They don't want you to take photos of other customers' designs.
- They refuse to sell other customers' designs to you.

Do not show your designs/prototypes to 20 suppliers in search of a good quote.

Show them a similar product, get a rough quote, qualify them carefully, and then show them sensitive files.

Legal and Non-Legal Strategies

Trademark

- If you have a brand, register your trademark in China.
- Another company (including your supplier) can register it before you do!

Design

- NDAs are very weak.
- Some specialized lawyers can help you sign a Non Disclosure, Non Use/Non Compete, Non Circumvention Agreement.

If possible, structure your supply chain yourself and place a firewall between its major elements:

- Find and qualify the suppliers of the main components.
- Distribute the processing and pre-assembly across several factories.
- Give the final step (assembly & packing) to a foreign manufacturer.

Monitor the Market

Trade shows, online B2B platforms, B2C e-commerce website... Where to start?

If your supplier makes 1,000 extra pieces with your design and sells them on Taobao, does it hurt your business?

Focus on a few places to check. If seeing and touching samples is important, trade shows are critical.

Most trade show organizers have a strict policy regarding IP rights infringements.

1. Bring proofs that the designs are your property.
2. Get several business cards on the booth.
3. Take photos that show the samples as well as the booth number.
4. Go and see the organizer and ask for the steps to take.

Lack of Factory Improvement Over Time

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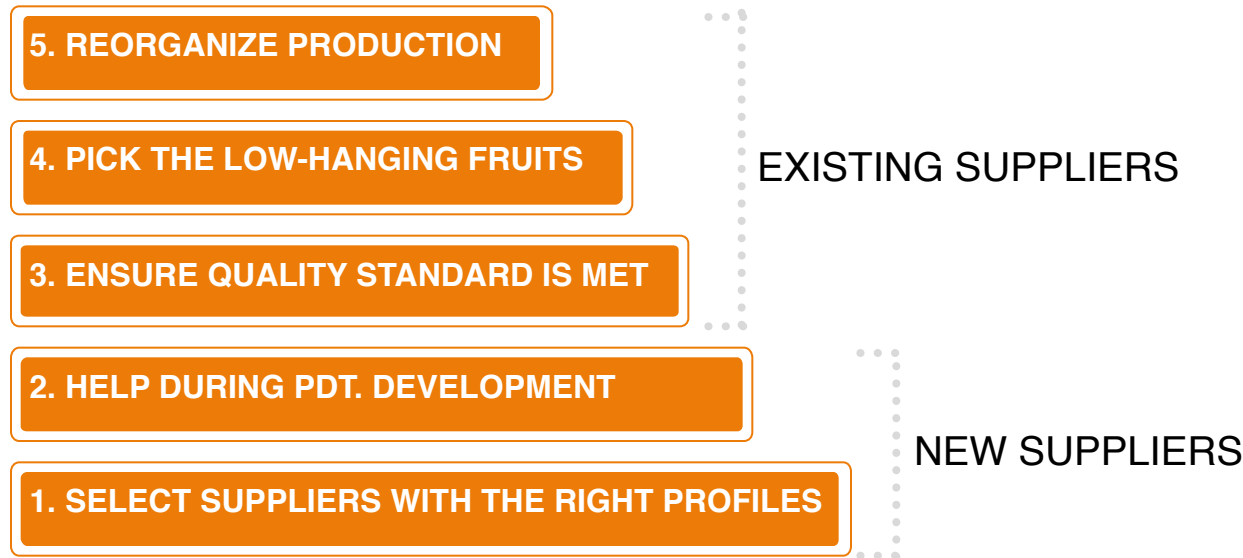
- Buyers generally assume that the path to the first order might be a little rocky, and that things will improve over time. Wrong!
- The biggest issue in China, generally speaking, is the absence of “system thinking”.
- The same mistakes come back, over and over.
- The second biggest issue is short-term thinking.

How to spot potential suppliers that are motivated to get better? Here are a few examples.

- They re-invest profits.
- They want to develop new products/technologies.
- They hire professional managers.
- They intend to stay in China.

Steps to Help a Factory Improve

There is a logical progression.



- The hard part is training, coaching, and enforcement.
- It needs to come from the top.
- If you represent at least 40% of a factory's volume, you can put a lot of pressure on them to improve.
- They will probably need help.

Thank You!

Q&A

Renaud Anjoran

www.qualityinspection.org

ra@sofeast.com