

50 Typical China Sourcing Questions™ Avela Corporation

1. What does it mean to Source in China?

China Sourcing in the simplest terms means buying directly from a Chinese factory, trading company or broker. In the case of Avela Corporation, we break it down into 3 basic categories. Sourcing, Quality Control or QC and Logistics.

2. Please define the different categories of China Sourcing?

First is the actual **Sourcing** or finding the right fit company out of thousands for our client's needs. This includes negotiating the best possible deal on behalf of our client.

Second is **Quality Control (QC)**. This is a huge category involving the creation of a quality check list and creating a Pro-forma Invoice that specifies all of the check list items and includes remedies for any issues that might arise. It is important to have experience here as things are always more complex than they appear. Of course QC is all about inspecting the products before they leave China.

Third is **Logistics**. This can be one of the most difficult aspects of sourcing, especially if you are on deadline. And as with anything else involving China, experience is critical. You do not want to be surprised by customs issues at the port, as that can be very costly.

3. What is involved to get products from China to my loading dock?

As mentioned before, there are 3 basic steps, **Sourcing** of the product, **Quality Control** to insure there are no surprises and **Logistics** that get products to your dock.

But the intangibles are equally as critical. You need experience, knowledge of culture and customs and you need to know how to build relationships on both sides in order to be sustainable.

4. What are the steps to developing a business relationship in China?

The simple answer is just showing up. But really it is much more than that. Yes you have to show up, but after that, good communication is the key. And this involves knowing the culture, business practices and making sure that you have created a win/win environment within the deal. There is also a good deal of research necessary to creating business relationships as well.

5. Do I want to work with a trading company or do I want to go factory direct?

Trading Company Pros

1. If orders are smaller than a direct factory will support, a trading company can find multiple clients that need the same product, which will, when combined, be enough business to hold a factory's interest. And if the total volume is large enough, the trading company can demand a lower price than a direct factory arrangement with small quantities. In an honest relationship, this is how a trading company can earn its weight, so to speak.
2. Trading companies know the factories and know how to conduct business in China efficiently. They represent a body of valuable knowledge.

Trading Company Cons

1. **Many** trading companies will put profit over quality and do a lot of shopping for the best price, putting quality second. When a trading company shops, there is no relationship and development opportunities are lost.
2. **Most** trading companies are not stable. When one goes under all history/knowledge and even property like mold investments can be lost. In addition, there is a substantial risk of losing the investment on the last deal you made before the closing of a trading company in China. (Or Taiwan)
3. **Many** trading companies are either incompetent or just lazy. As soon as there are issues or trouble of any kind, it is common that you will find they break the relationship with you. In other words they may not stand behind their work.
4. There are often no real back-up plan concerning your products.

Pros for Factory Direct

1. You build a relationship which (over time) can lead to better/improving quality, better terms, better pricing, OEM opportunities and more control over your goods in general as you provide feedback, which btw they like to hear.

Cons for Factory Direct

1. You do not have large enough orders to maintain factory interest.
2. Communication and Cultural obstacles can be difficult to overcome.

6. How do I guarantee quality from China?

China is not a rule of law country like in the west. Having said that, China is working on this, but there is not the infrastructure to redress issues in a law suite style typical of western nations. The only way to guarantee quality is to have a good Pro-forma contract, which btw should be only 1-3 pages long. Also withholding payment until you have verified the quality personally is key. This is why it is good

to have an advocate with feet on the ground in China looking after your interests and solving problems or issues before they become critical.

7. How do I manage my risks in ordering Chinese goods?

This goes back to the 3 basic aspects of China sourcing; sourcing the right fit factory, developing your QC system and making sure your logistics is right.

There is no bigger mistake than choosing the wrong factory or supplier. China can be a tricky business landscape. You need to do your homework and give yourself choices.

QC is critical even if you have found a great factory or supplier. QC is all about communications and good communications comes from knowledge and experience.

Logistics can be a pitfall if you have not done your research. There are customs issues to navigate both in China and the US and you need to be in harmony to be successful.

But the real issue I see is universal. In general, people place themselves in the position of making a “good” decision, little or no real experience required to make that decision. Statistically speaking they stand a greater than 70% chance of making a “poor” decision. That’s not to say that people can’t do great business in China first time out. It happens all the time. But when you peel back how they did it, almost always they did there due diligence and got help.

8. How does negotiating with Chinese companies differ from negotiating with western companies?

As we talked about earlier, China is not a rule of law country. There is no mature infrastructure for addressing grievances and or issues. That is probably the major difference business wise. So it is important to make informed decisions before you even start negotiating.

The next hurdle is creating an environment so both parties get to know each other. Since there is no rule of law to fall back on, from the Chinese perspective, they want to know what kind of person you are and how honorable you are as this is their only way to evaluate if they are making a good decision to take you on as a client.

They want to know every stat you are willing to share about your company, from the founding, number on employees, gross revenue, how you reach your market, what your goals are and more.

And they want to know you as a person. Do you paint blue sky or are you a realist? They want to know about your family too as family in China is EVERYTHING. In there minds, this will point to whether you are honorable or not.

And they want to know your short and long term plan as it relates to them. This is critical and you need to be prepared to answer this in detail.

9. What is the difference between Chinese business cultures and western business cultures?

Since we are rule of law, we rely on our contracts and lawyers. It's kind of funny, but if we took the rule of law away from our business practices, I seriously wonder if we would be as honorable as the Chinese.

They hold honor and family as supreme importance. Honor and family are the glue that has binds their 5,000 year plus culture together. You must understand this and embrace it. Coming to China with a 40-page contract is a waist of time and totally out of sync with the Chinese business culture. The Chinese see contracts as a snapshot in time.

They see a contract as an agreement made on a certain day by like-minded individuals. But they also think that parameters change and contract should be flexible. So it is a good idea to have things in the pro-forma or contract that reflect flexibility on your part. They also know that you need some things to be inflexible and will work with you as long as there are flexibilities built in.

It is a good idea to be flexible about delivery and even perhaps price to some degree but hold firm on quality.

10. Do I want to work with a state owned factory in China or a private company in China?

State owned factories are over 40% of the factories in China, so if you are doing a lot of things in China, it is likely you will be working with both.

State owned factories tend to be well funded with access to capital. They also tend to be less personal and less flexible and less innovated. You kind of "get what you get" so you just choose to work with them or not. Having said that, it is all about the leadership and you need to get to know them to find out their business style.

Privet companies tend to be very entrepreneurial and run their businesses in a more western style. They are easier to work with for OEM type product or when doing product development. But they may have an issue with access to capital. It is not fair, but state owned companies are much more likely to have access to capital through the state owned banks than the privet companies do. This can be an interesting dynamic as the possibility of a business venture with a private Chinese company seams to always be on the table.

11. How long does it take to find the right factory in China?

That depends on the product you are looking for. If is a simple commodity made by hundreds of factories, maybe 2 weeks. But if you are doing product development, finding the right partner is critical and cannot be rushed. It could take up to 60 days to vet candidates and make a good decision. And after that, it is a good idea to actually visit the factory that you want a relationship with.

12. How long does it take to make a product in China?

Typically it takes about 6 weeks for an established product. But if you are making something custom, or doing product development, it can take up to 6 months.

13. How long does it take to ship products to my loading dock?

It takes about 4 weeks on average, depending on where you are. Having said that, US or Chinese customs can always add an additional 2 weeks to the process. That is rare, but possible.

14. How difficult is it to deal with US and Chinese Customs?

I have 2 answers. Easy if you are prepared and experienced. It can be a nightmare if you are not prepared and do not have experience.

Logistics can be very complicated. If you are dealing with a factory with tons of logistics experience, then it is really not so bad. But if you are working on OEM or product development type projects, things could be difficult. There is insurance involved with every shipment and if you should ever have to make a claim, to be truthful, that is a maddening process to go through. Logistics is my least favorite part of the business.

15. What happens if the products are wrong or defective when it arrives from China?

If you have a good agreement and a good relationship and communications are good, you are in pretty good shape if there is a defect issue. Usually these are solved with make-up product on the next order. Another way is to discount the next order. Straight reimbursement is much more difficult due to international law and the issue of money laundering that both the Chinese and US authorities worry about.

If you are working with a trading company or a broker, they will have to carry your water, so it is critical you have good help in China to resolve any issues that come up.

16. What kind of contract would I expect to have to manufacture my product in China?

Since China is not a rule of law country, contracts are seen as a practical representation of conditions at the time of the agreement. If the conditions change, then for them, it would only stand to reason that the “contract” would by necessity change as well. As mentioned before, it is a snapshot in time as much as an agreement. Having said this, what I am specifically referring to is a contract for an order of goods from a factory where the contract ends upon delivery and payment. So the Pro-forma invoice serves best as your contract and it is critical that all QC and performance issues are specified in the Pro-Forma invoice in a simple and clear way.

It is a different matter when it comes to setting up some kind of Joint Venture in China. Although some of the “snapshot” principles apply, when developing a contractual agreement such as a Joint Venture, you absolutely **MUST** have a lawyer with experience setting up JVs in China. In my opinion, that is not optional.

17. What is the best way to pay for goods I receive from China?

There are 2 basic ways. The first is a Letter of Credit. This is seen as the safest way as a third party holds the funds until all requirements are met as specified in the Pro-Forma invoice and contract. However, to my experience, no one really likes Letters of Credit as they add to the cost of the overall deal and take a great deal of time and effort to initiate. Of course if you have a multi-phase complex project worth millions of dollars, it is a very good idea to use a Letter of Credit.

The second way is a simple wire transfer. This is considered the least safe but expeditious way to pay for good. The reason it is the most popular way to pay is because it is much cheaper (and that’s the point to going to China) faster and simpler. Usually the deal is structured where the buyer pays 30% up front. That is the big risk for the buyer. 70% is paid upon delivery of the goods to the Chinese port.

I want to point out that the 30% risk is real, but shared by the factory as well who will be buying materials and devoting time and labor to make the product. They risk that that you will pay the 70% upon completion of the manufacturing. And actually, the factory has the higher risk as the materials needed to produce are commonly more than 70% of the cost to produce a final product.

In addition, there are ways to mitigate the wire transfer risk by choosing a great factory to start with and communicating your expectations perfectly and inspecting the goods before they leave China.

18. Can I get terms from Chinese manufacturers?

Usually the terms are 30% up front and 70% upon delivery to the Chinese port. It is possible to negotiate better terms, but this is usually done over time when the relationship proves itself. After several orders under your belt you may get 30% up front and 70% in 60 days, which gives you about 30 days after your goods have

landed. Depending on the product and the developing of a mature relationship, it is possible to have goods warehoused in advance for shipping on a regular schedule with payments scheduled that ultimately give you terms similar to what you might expect in the west. But this is only done once a relationship is strong and proven.

19. Can I get guarantees from Chinese manufacturers?

Yes you can. But it is important that you specify what you consider a guarantee. For instance, we have been importing wireless routers at about 2,000 per month. The factory guarantees a 2% defect rate and ships 2% more product than what is ordered. That is a typical Chinese guarantee. If the failure rate is above 2% then they will make up for the defective routers on the next order and change the percentage and provide a new number of “overs” reflecting the new percentage.

What is more difficult is to get a full refund for a couple of reasons. The defective product would have to be returned and that is expensive. And the margins are usually so tight with Chinese factories, they cannot afford to simply refund for faulty product. They prefer to “make good” by making more next time.

20. Many Chinese companies have English speaking sales managers. Is it difficult to communicate to them?

If they do have English-speaking staff, then communications become much easier. But one thing to remember is that there are still business and cultural gaps that are difficult to navigate even if the communication is good. The other thing to remember is that this English speaker person on the other side works for the factory and not you. They will have the factories interest in mind above yours.

21. Is it possible to do product development in China?

Absolutely. Still, all the issues of communications and culture, both business and personal, apply to this process as well. It has been my experience that you need patience and people on the ground helping the process or things grind to a halt. You need to constantly push.

22. What do Chinese manufacturers expect from me?

Chinese manufacturers want to know the details of your business such as years in operation, gross revenue, number of staff, what you make, how you address your market and personal details about your family life.

They also want you to be honest and not paint an exaggerated picture. They want projections so they can understand the scope of the project and judge the important as it relates to their growth. They want to see your vision in both a conservative way and best case.

They want your feedback so they can improve. They want a long-term relationship. Anything that points to you being a short term or event driven client will affect their interest and price.

23. Should I travel to China to meet the factory managers who will be making our products?

It depends, but I say yes. They want to know who you are and what you do and how you market and how you conduct your business. No one can explain this better than you can. If it is a simple commodity, then maybe there is no need to go to China, but if you are beginning a relationship, it is an important step.

24. What kind of savings should I expect from Chinese manufacturers?

On commodity type items, maybe it could be 20% savings. But when the numbers are large, 20% is significant. Usually you will find around a 40-60% savings. The more that human touch is involved in the manufacturing process, the better the savings.

25. Other countries like Viet Nam, India, Brazil and Pakistan are low cost manufacturers. Why should I choose China over these countries?

Infrastructure comes to mind first. China has developed modern roads, shipping and all manner of freight infrastructure that can support trade. Other countries are still developing these country assets but China is fully mature in this regard.

China also has a leg up on manufacturing technology over other developing countries. So more sophisticated products can be developed and produced in China on whole.

To put it simply, when it comes to trade, China has critical mass that will be difficult for almost all countries to eclipse.

26. Is it difficult to deal with all the paperwork associated with Chinese manufacturing?

It can be. You have to get everything you need on the Pro-Forma invoice and sometimes translations are not clear. We create our Pro-forma in both English and Chinese so there is a perfect understanding on both sides.

The logistics paperwork is also a challenge. It is not rocket science but it does require a lot of careful effort to insure everything is right.

27. What is the biggest single issue when it comes to manufacturing in China?

It is communications and experience. Communication and experience leads to choosing the right manufacturer and creating the right conditions for success. There is no way around it.

28. What should be the total time it takes from sourcing to landed products?

The short answer is 2-6 months depending on quantities, and if the project is a commodities or custom made or in product development.

29. What specifications will I need to have products made in China?

You will need drawings, sample and or prototypes. They will also want to know your quantities as this may affect how the manufacturing is approached.

30. How do I protect my intellectual property when manufacturing in China?

One answer is to innovate. Always be working on updating your product so you are the best in your market. Yes, China will copy your product. And so will India and several other countries. So be the innovation leader.

Another way is to divide you final product manufacturing to several different factories so no one factory makes the entire product. Make sure they do not understand what your final product does and assemble in yet another factory. Keeping manufacturing segregated is a good way to protect your IP.

Having said that, if you product is cool, no mater where you make your product, other countries will copy it, so in a way, it really does not matter if you make it in China, the US or any other nation. If you are cool, you will be copied.

Of course you want to protect your markets with patents. If your market is specifically the US and you have patents in the US, the copied Chinese goods cannot be sold there. Usually they are sold in the Middle East or Asia. So whenever you can protect a market through patents, do so.

31. Is using services like Alibaba safe and cost effective?

Alibaba itself is safe as a sourcing portal. They allow for direct communications. What happens after that is all about whom you happen to be connected to.

Sites like Alibaba are filled with brokers and manufacturer reps that represent several companies. These brokers could be OK to work with, but my experience is that it usually much better to find a liaison company with experience sourcing in China.

These brokers you find on Alibaba usually are after a fast buck and not around very long. It is a big revolving door for brokers and trading companies. Some of my best clients come to me after an Alibaba experience.

Still there are a lot of direct company connections you can make on Alibaba, but you still do not know if you have negotiated the best possible deal with the best possible factory.

32. Are fulfillment services available in China?

Yes they are. There are fulfillment houses in China just like there are here in the US. Usually they work at a big scale with large clients. And all the precautions about doing business in China apply to them as well. You need great communications and experience to work with them. You need to pick the right fit fulfillment house just like you would a factory.

33. How do I know that the materials I have specified are actually being used in my product?

This consideration should be specified in the QC process. You need to be able to trace the supply chain back to the source. You really need an experienced person on the ground to do this, as this kind of checking can be complex. Many factories will substitute without notification. It is a common practice.

34. Can I order small quantities from China?

It depends. If your product is custom made and has a significant price point, then yes you can order small quantities. But usually the defining question on if you qualify to have something made in China is: What is your quantity?

Quantity to a Chinese manufacturer is usually measured by containers. I like to say that “containers” are the real currency to Chinese manufacturers. And the next question will be, how many containers per order and how many orders per quarter or even month. That is the sweet spot for Chinese manufacturing.

35. Does it help to know Chinese?

Yes it does, but since issues of culture and business are complex, you need more. I do not speak Chinese but all my staff speaks English and I have been very successful in China for over 12 years.

36. Is it a good idea to attend trade shows in China? If so, which ones?

I think it is critical. A Chinese trade show can teach you where the Chinese think the trending is in your industry. Just look at what they are investing in manufacturing wise and you get a pretty good guess as to where your market might be heading.

You may also discover that your competitors are already in China by attending a trade show. To me that is a very important bit of information for your corporate strategy.

Tradeshows in China are great developing relationships. You will be exposed to some really great Chinese entrepreneurs who are eager to meet with you.

And finally it is a lot of fun. The granddaddy of off trade shows in China is the Canton Fair in Guangzhou China. It is mind-blowingly huge. The Canton Fair is so big that it is held twice a year. It seems like every merchant in the world descends on the Canton Fair.

There are smaller trade shows that travel throughout China all year long. Shanghai is a good place to watch for industry specific tradeshows as Shanghai seem to get them all the industry specific trade shows over the course of one year. And Shanghai is one of the world's great cities to visit.

37. Should I hire someone who speaks Chinese to help me?

It is better than not having someone to translate for you but translators for hire usually do not have trade specific knowledge. These translators are usually inexperienced college English majors who will have trouble with almost all of your complex thoughts. It might be OK but likely not a good experience.

38. Do I need an office in China?

No, at least not at first. Creating an office in China and finding people, who are competent, that you can trust, is VERY difficult. You only want to go down that path once you are confident in what you want, have clear goals and can devote the capital and time necessary to be successful. Long distance offices are hard. Work with a liaison type sourcing company first.

39. Should I hire a rep in China to coordinate my orders?

Again, this is hard. It is hard to find a talented and loyal person. Talented people in China tend to job hop, so it is problematic to invest in someone in China. Unless you have a specific circumstance where you feel confident in investing in a rep in China, I would advise against it.

40. Are there specific regions in China for my category of products?

Yes. There are regions and even cities that specialize in manufacturing certain products in China. For instance, Shenzhen is known for electronics and Hangzhou is known for steel fabrications.

41. What can you tell me about the Chinese New Year holiday and orders placed around that time?

It is important to get out in front of the Chinese New Year or CNY. The New Year is on a lunar calendar, which lends to the confusion when it comes to planning, as the actual date is a moving target from year to year. But basically it is sometime in January or early February. It officially last 2 weeks but when you consider that hundreds of millions of people are going back to their home towns at the same time, in practical terms, you need to count on a 30 day delay. We try to get all orders shipped by the first week in January as a rule.

This means that if you have 6 weeks in production that you need to start the order in mid November.

42. What are the other important holidays in China and how they affect business?

CNY- up to 1-month delay
Lantern festival 1-day delay
Labor Day 1-2 days delay
Dragon Boat Festival 1 day delay
National Day 3-5 days delay
Tomb Sweeping Holiday 1 day delay

43. Will prices increase every year?

As cost in commodities rises and fall, so will prices in China. Tax policy has a dramatic effect on pricing as well. Some industries get big tax breaks that they can pass on one years and the next they get heavy taxes that they must pass on as well. Labor has been consistently rising in China so the short answer is prices are going up for most products every year. The pattern is very similar in most other developing countries. What drive cost down are taxes, commodities, and supply.

44. How can I lock in a price with manufacturers?

The only real way is to invest in long-term relationships in China. Factories have their “A”, “B”, and “C” clients, just like everyone else. If you are an “A” client or can demonstrate a path to becoming an “A” client, you have leverage to lock in pricing.

45. How can I to accelerate production with Chinese manufacturers?

It is like everything else. You have to put time and resources into the project to accelerate the process. That is why it is good to have someone on the ground keeping tabs on your production. They can help find ways to accelerate the production

simply by clearly communicating. Poor communications is why most projects get behind schedule.

46. Do I need a redundant factory for my orders to be safe?

Not always, but it is never a bad idea. In order to take advantage of having redundancy, you need large orders where both factories are happy with.

47. Is it safe to travel throughout China?

Perfectly safe. In fact China is one of the safest countries I have ever traveled in. Of course you need to obey the laws.

48. What are some of the products I should consider for manufacturing in China?

Wow; well the list is endless. The better questions are: Do I have the quantities I need to justify manufacturing in China?
Do I have the cash flow to accept the 30% down and 70% before shipping necessary to work in China?

49. What are some of the products not competitively made in China?

Business printing of brochure as one example. We are used to the “just in time” printing approach in the US. In China you have 30 days in transit. And printing machines in China are no different than here. Most of the process is automated now to reduce labor, so China has no real advantage. But if you wanted something hand bound with plenty of time to deliver, then China is the way to go.

This example serves in and can be applied to most products. If a product is produced almost entirely by machine then it is best to do it here.

50. Should I hire a professional China Sourcing Company? 😊

Absolutely, That is what we have been doing for over 12 years know. Focus on what you do best.