

The Problem:

In order to compete in today's global economy, companies must be able to source their products or parts at internationally competitive prices without sacrificing quality. For many, the most cost-efficient, high-quality producers are now located in China. Successful Small and Medium-sized Enterprises (SMEs) must now include China as part of their supply-base strategies.

The problem, however, is that many Small and Medium-sized Enterprises (SMEs) do not have the international purchasing experience and resources to locate, qualify and negotiate with Chinese suppliers.

Successful China Sourcing for Small and Medium-sized Enterprises

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SMEs face several specific challenges when beginning to do business in China:

The Problem:

1. **Lack of understanding China's culture and business practices**
2. **Lack of relationships with Chinese suppliers**
3. **Significant expense to evaluate potential suppliers**
4. **Unpredictable quality and cost**
5. **Limited or no familiarity with foreign customs and delivery procedures**

Although these are somewhat obvious characteristics, let's examine them in a little more detail to understand the problems that can occur if your partner does not have this experience.



1. Lack of understanding of China's culture and business practices

China is a country deeply rooted with traditions and customs and the Chinese business world is no exception. Lack of cultural experience can result in unfortunate misunderstandings and missed business opportunities. The situation becomes even more complex in that China cannot be considered a homogenous country; regions and even cities have their own business practices, cultural influences, and language dialects. Finally, there is the confluence of China's traditional, communist and capitalist cultures.



2. Lack of relationships with Chinese suppliers

Task your purchasing department with sourcing a part in the U.S. and they will immediately know where to start looking. They will have either previous experience with the potential suppliers or be able to network with their peers to get the "inside" information on potential suppliers. Ask these same agents to purchase a part in China and they have very little network to rely upon. Yes, Google searches will give them some starting points, but at the end of the day, they are relying upon Internet representations or manufacturers representatives. The fundamental problem with doing business over the Internet is that, while this may be okay for an initial contact, the customer will not be taken seriously by the China supplier if the customer does not ultimately have some physical presence in China – if you intend to succeed in China, you must be there – all serious customers have some physical presence and use Local Nationals to conduct their business.



3. Significant expense to evaluate potential suppliers

The typical domestic supplier evaluation process frequently involves verification of manufacturing and quality certifications (e.g. ISO 9000), initial quotes from specifications, sample parts and/or factory visits. Obviously, these same steps in China are prohibitively expensive for most SMEs, as the average cost of a trip is about \$10,000/week. Equally important, who can they send? There are very few SMEs with employees that speak or read the language; therefore travel, interviews, etc. are difficult, if not useless. Even using a hired translator is not reliable to ensure the western traveler will have a successful outcome for the trip agenda and objectives.



4. Unpredictable quality and cost

After the evaluations and contract issues are resolved, the real issue is sustainable quality at an agreed upon cost. This problem exists with any supplier, domestic or international, but is exacerbated by foreign suppliers where an on-site trip, communications and time difference make it nearly impossible to resolve issues in a timely matter.

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5. Limited or no familiarity with foreign customs and delivery procedures

The true test of an excellent supplier is the consistent on-time delivery of quality products at the agreed upon cost. To insure that all of the supply chain requirements are satisfied for each order requires the U.S. company to fully understand the options and potential problems inherent in China sourcing. U.S. and China Customs, government regulations, internal shipping options, holidays and supplier's policies all determine the success or failure of the supply chain.

With so many challenges, how do SMEs address these issues so they can confidently participate in a global economy and remain competitive?

The Solutions:

In order to compete effectively, a small or medium sized organization must find local U.S. partners with a comprehensive set of China sourcing skills that enable the partner to completely fulfill the contract. The characteristics of such partners are:

- **China sourcing experience**
- **Credibility through proven performance**
- **Experience in supply chain management**
- **Offices in both countries staffed by teams from both cultures**
- **Excellent written and verbal skills in both languages**

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China sourcing experience

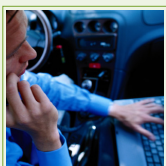
Your U.S. sourcing partner must have offices in China, staffed with Chinese professionals experienced in manufacturing and business. For example, both domestic and international suppliers frequently quote low prices to win the business, and may even provide samples meeting your quality standards. However, the challenge is to qualify suppliers who can perform consistently.

Partnering with a U.S. company, which has a professionally staffed office in China, will guarantee that the cultural, business and manufacturing issues required to set up a sustainable product supply will be handled.



Credibility through proven performance

Your sourcing partner must have experience in procuring products similar to yours including meeting required quantities, price points and delivery constraints. This is extremely important because the challenges associated with sourcing particular products vary greatly. For example, the sourcing requirements of seasonal items such as books, CDs and toys are significantly different from continuous supply items for a manufacturing line such as automobile components. The seasonal items must make holiday deadlines or their value plummets. Whereas the manufacturing line parts must arrive every day or every week right on schedule. Obviously, each market may require different manufacturing, quality and shipping skills.



Experience in supply chain management

Effective supply chain management is critical for international sourcing. Although international shippers provide tracking software and other services, there are a myriad of local and country specific customs issues that must be set up, monitored and executed daily to maintain the ongoing shipment of products. A qualified partner will have experienced representatives in China and the U.S. to handle these issues.

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Offices in both countries staffed by teams from both cultures

A number of international companies bring their teams and business models to the U.S. to create a base for sourcing products. However, this business model is difficult to work with because it is based upon foreign business practices, and fails to appreciate the nuances of doing business in another culture. Verbal agreements, contract terms, work processes and procedures do not conform to the experiences of the U.S. organization. Furthermore, what is customary and acceptable in one culture can be offensive in another. If your partner interface is someone only familiar with their culture, then the project is in serious difficulty because misunderstandings are guaranteed. A significantly more effective model is for a U.S. business to create an international office, staffed by native professionals with a strong exposure to both Western and Asian business practices and cultures. Few companies can bring these experiences to a partnership.



Excellent written and verbal skills in both languages

This seems like a simple point, but it is critical. How many times have you read an email or document written by someone unfamiliar with the English language and wondered how they could have made such an interpretation? Your counterpart in China has likely experienced the same difficulty with your messages. Experience has shown that both written and verbal skills are required. You must have the ability to call your supplier and talk to someone who understands the message. If the supplier can only communicate in writing, then there is a high probability they are not conveying all the critical information.

SUMMARY

Small and Medium-sized Enterprises must find an effective way to optimize their product costs by using the resources of the global market. For many of these businesses, China is the preferred country because of its diverse workforce, mature manufacturing and international business practices.

The key for your business to utilizing China's capabilities is to select a U.S. company with offices in China and the professional staff and experience to delivery high quality, cost effective solutions. This partnership can be very rewarding and profitable.



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