



# Basics on China Sourcing Process

By Frank Zhang

1. China's Advantages
2. China's Industrial Products with advantages
3. Benefits
4. Obstacles
5. Risks
6. Feasibility
7. Planning
8. Sourcing Modes
9. Implementation
10. Keys to Success
11. Basic Knowledge about China

- Low Labor Cost – USD0.8/hour against USD25/hour
- Low Overhead
- Low Capital Equipment Cost
- Low Materials Cost
- Manufacturing Capabilities



- Machine Tools
- Tools and Molds
- Apparel
- Castings
- Stampings
- Machined Parts
- PCB and assemblies
- Electronics
  
- Automotive Parts
- Aerospace products and parts
- Ceramics
- Architectural and structural metals
- Pumps and Compressors
- Semiconductors
- Electrical components
- ...

- Cost Savings – 20-40% expected
- Fixed Cost to Variable Cost
- Improved Manufacturing Flexibility
- Expanded Manufacturing Capacity
- Competitive Imperative



- Perception of risks
- No China experience and expertise
- Higher initial costs
- Lack of market information
- Logistics distance
- Quality assurance and schedule stability
- Language, culture, legal systems, and time difference



- Quality incompliance
- Schedule delay
- Loss of Intellectual Property Rights
- Today's partner to tomorrow's competitor

- Volume
- Margin
- Cost structure – labor cost, overhead, material cost, transportation cost and etc.
- Lead time and schedule stability
- Design change
- Required technical level



- Choose product mix
- Define objective – sourcing amount and percentage
- Make a schedule
- Plan resources

- Sourcing via a third party
- Sourcing directly
- Set up China Sourcing Office
- Set up manufacturing facilities in China
  - Joint Venture
  - Wholly Foreign Owned Enterprise

- Identify Suppliers
- Evaluate Suppliers
- Sign Contract
- Monitor Schedule and Quality
- Develop Suppliers

## *Sources of information*

- Trade fairs
- Trade promotion organizations
- Internet – alibaba, global resources and etc.
- Consultants
- Directories



## *Methods*

- Site visit – absolutely necessary
- Use your own translator
- Use a consultant

## *Issues*

- Quality certification – marketing tools in China not strictly implemented
- Supplier motivation – an important factor
- Access to materials
- Supply to competitors
- Human rights – be realistic



- Price – analyze cost structure
- Payment terms – L/C, D/P, D/A, T/T
- Price terms – FOB, CFR, CIF. DDP may be difficult
- Inspection – independent surveyor available but expensive
- Toolings – control of toolings
- Materials – imported or local made
- Intellectual property rights protection
- Supply to competitors



- Quality assurance planning
- Find the key persons
- Daily communications
- Telephone conference – review meeting
- Interim site visit
- Inspection before shipment



- Management support
- Commitment of resources
- Well-defined plan
- Patience



## *China's Developed Areas*

- Bohai area – Beijing, Tianjin and etc.
- Changjiang Delta – Shanghai, Jiangsu and Zhejiang
- Zhujiang Delta – Guangzhou, Shenzhen, Zhuhai and etc.
- Chongqing and around areas



## *Understand Chinese Business Culture*

- Personal relations
- Hierarchy
- Drinking culture
- Attitude to contract

## *Understand Chinese Tax Refund Policy*

- VAT – 17% or 13% or others
- Tax refund – 17%, 13%, 11%, 8%, 5%
- Change of tax refund policy – increase or decrease cost

## *Understand Chinese Foreign Exchange System*

- RMB – not free convertible
- Present exchange rate – USD100=RMB810
- Foreign exchange verification for exports
- Limited hedging methods available to Chinese companies





## *Logistics Providers in China*

- UPS
- FedEx
- Maersk
- APL
- A lot of local forwarders

BIT Consulting specializes in helping foreign companies source products from China and enter China market.

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