

# For Small business thinking about outsourcing from China

Spring 2023



## Why?

Let's start with the why? Why are you thinking about outsourcing? Without claiming to have any psychic talent, I would guess the price it will be on your list – and that has been the principle reason for companies outsourcing to China for the last 25 years or so. Whilst unit cost is a vital driver for every organisation – there are numerous other factors to think about before starting this process.

In this document, we list our experiences and observations from helping small companies on this road. China is a great place to do business 'if' you get it right – so we hope this guide will support that journey.



## Direct or with support

Putting aside our obvious conflict of interest on this point, the first challenge is to consider whether you have the knowledge and resource to deal with suppliers in China.

The main questions are – can you find the right manufacturing partners and are you able to communicate effectively together?

The right partner is crucial, and much of this document will link to this subject.

The main options on the table are;

- Dealing directly with a manufacturer
- Using a local agent in China
- Local support service in the UK

The perception then links to the unit cost being proportionately higher for these options, but this is not necessarily the case.

## Buying Direct

This brings big challenges – how do you find a factory suited to your specific needs? A Google search will provide options, but are they the right options for you, and how many options are you missing out on if you don't speak Chinese and cannot look on Chinese search engines?

How do you know when you have found the 'right' partner and are they even a manufacturer? Is it price, quality or the best English that is influencing your decision-making?

In our experience parting with the money is the time this option can start to raise concern – so before you head down this route, be sure to check if you are confident in your commitment to it and have the resources that are needed.



## Chinese Agent

The option of using a local agent in China can seem like a good middle ground. Having local support is vital in our opinion because ambitious entrepreneurs need a changing supply base to suit changing customer demand. Be sure to check the services they offer and whether they will provide you with full supply chain transparency, and if they operate in a way that works for you. As with every service – there are good and bad, and ultimately comes down to whether you make the decision based on what is right for you.



## Local Support

Local support in the UK provides you with support in the same time zone and the ability to let someone else manage and advise. This removes much of the risk from the equation but comes down to personal preference. Straight talking is easier, and there are no concerns about the cultural misunderstanding. Whilst this can be perceived as more expensive – our suggestion is simply to compare services and work out the level of risk you are comfortable with.

## Finding the right partners

As Heraclitus once said 'the only thing that is constant is change' – and we would advise that you think in these terms when you think about outsourcing. It is not about finding one factory – job done. Getting the best out of suppliers in China is about adapting to the situation you face – this could be adding complementary suppliers, changing a supplier or focusing on more added value cost savings.

As such we would advise you to start off thinking about what you want to achieve and then looking at whether that is something you are confident that you can manage in-house. The right partners are crucial and will make the difference between rapid growth and frustration. What defines the 'right supplier' for your business? Is it their management, their client list or their equipment or price? The great news is that China has such a vast number of manufacturers and there is a high chance there will be several that are right for you – but your challenge is not just to find the one, but work out a system of how to deal with multiple suppliers. We would strongly advise that your short list of options is taken from research done in China by Chinese speakers – this will provide greater choice. If you need high levels of English this can restrict the options open to you. Whilst English is the best 'second language' in China – there are plenty of good quality specialist manufacturers that won't have this option.

Our view is that focusing only on price will be a flawed strategy and approach. Be specific in your approach and state exactly what you are after – including your inspection and quality expectations. By being specific you will attract the right partners and lose those who cannot support you.

## Communication



Perhaps the most important factor to think about in formulating your approach is communication and how you will manage this over the long term. It is fundamentally communication that will determine success or failure in China.

Whilst this is such a broad subject, communication needs to be considered in terms of translation (management/technical) as well as in terms of how you manage cultural considerations such as Mianzi and Guanxi.

Small business owners do not necessarily have the luxury of sourcing from multiple suppliers, so the production assets held by a single third party (tools/gauges/fixtures) are often the lifeblood of their company output – and this in turn must be considered within the context of who is managing the communication, and do they have sufficient experience to keep the relationship positive through changing and sometimes challenging circumstances?

It's important to remember that communication is a two-way process – if you find a supplier able to communicate in English how much do they understand? Do they have the confidence to ask questions or not – if not, problems are likely.

## Assessing Capabilities

The last 3 years have made assessing suppliers a big challenge. 'Zero Covid' travel restrictions were removed from 8th January 2023, and this is a step in the right direction of moving back towards being able to assess a factory first-hand. It is vital to build a relationship with suppliers if you are going to form a long-term partnership of mutual benefit – that relationship can be held in 2 ways:

- Direct
- 3rd Party.

The direct method will require multiple visits and the cost and time is a long-term commitment, so budget for that and ensure you can commit the necessary senior management to attract the commitment from equivalent seniority in China.

Using a third party in China can significantly reduce the time and commitment. Providing you issue clear details of exactly what you are looking for, a local partner can research the market and take care of all the initial dialogue to try and remove those not suitable. Audits can be provided that will provide focus on where you should spend your time.

Providing you have in-house technical knowledge, we still strongly advise that you commit to meeting face-to-face. Every industry has nuances that you will want to see that provide confidence that this is the right way forward.

## Decision Making

Committing to move forward with a supplier often comes with the first transfer of money – and in our experience provides the first 'leap of faith.' This is not only a financial commitment, but a commitment to invest a lot of time in supporting the process.

The word we most fear is 'assumed' and we strongly advise that you list all your assumptions in advance and check them clearly point by point. Unless these assumptions are stated and agreed upon, we would suggest the only assumption you can make is that it is excluded.

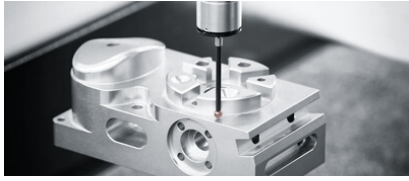
Whilst it is difficult to think through every aspect of an unknown future – in our view, you need to know how you will communicate, who will update when you can get improved credit terms, what quality checks will be done on the product, what documentation will be supplied on samples and production etc.

## T&C

We are not lawyers and this is a tricky subject to comment on. In our view, the 'real' T&C on doing business in China flow from the relationship you have with the supplier and not from some words in a contract. We are not saying contracts are not important – but they should be taken within a context, and if you are focused on them to control the business, something is not right. We have standard terms we use with suppliers, but we also understand the limitations of those agreements, and we will focus on our relationship with suppliers to manage the long term interests of our customers.



## Quality Control

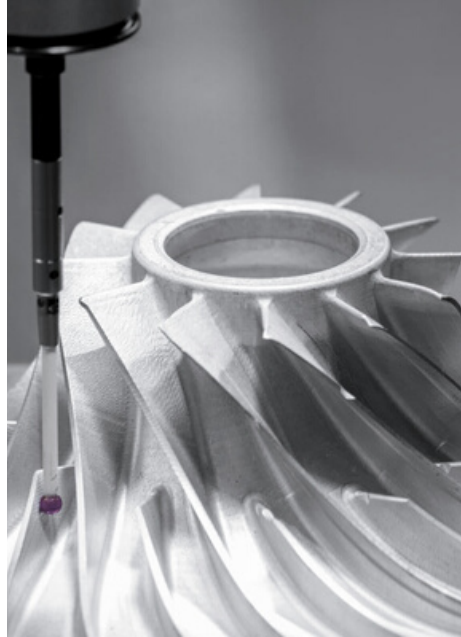


A big subject, but, in our view a relatively simple one. Finding a supplier that not only has the capability but can actively show you that they have existing systems in place that they follow and work for you. There are enough suppliers out there that you do not need to 'reinvent the wheel' – in our view, finding a cheap price and trying to add in the quality systems you want won't work.

Whilst there are many 3rd party inspection companies out there, starting from the perspective of needing them in place does not necessarily show trust in the relationship you are forming. If you do intend to use a 3rd party – it does require considerable thought on who is doing the work and essentially 'representing your interests' – are they constructive or are they undermining your business future with overzealous rejections?

As such – from the start – be specific about the inspection equipment and reporting you need to see and rule out any factories that cannot demonstrate that they have this or at least access to it. Be clear about standards required on all aspects of your product – what is and is not acceptable. Allow sufficient budget for developing bespoke gauges and fixtures to minimize the human element.

## Sampling



We strongly advise not to start sampling with a new supplier until everything is clear and agreed upon in detail – details such as lead time, progress updates, and ISIR material and dimensional requirements – not forgetting costs allocation of sample transport.

If you anticipate several rounds of sampling – set expectations with clear objectives for each round of sampling. Be fair to the supplier and be clear about how long your testing will be, and if there are multiple connected parts, be clear about the impact this could have on the order schedule of their product.

We would also suggest looking at the MOQ agreements and looking at the financial implications of moving from 3 samples to a batch of 5,000. The risk can be high, and we strongly advise that upfront discussions include a slow increase in batch quantity until you reach the agreed MOQ.

## Conflict Resolution



In an ideal world, there will be no conflicts to deal with – but whether a conflict links to price increases or quality problems it is unrealistic to think they will never exist, and you need a strategy to deal with whatever develops.

The covid era (for example) has thrown up a huge number of issues in international business that are neither a supplier's nor buyer's making – but they have to be dealt with. Think about who will be responsible for dealing with these issues, and ensure they know who their counterparty will be and put time into that relationship. Your future might well depend on navigating these testing times, so be confident that you are set up to deal with them, and then ensure the appropriate person is aware when potential conflicts show themselves.



## Geopolitical

It is not possible to do business in China without acknowledging that they have their systems, ways and culture and that these differ from ours.

From our perspective, doing business in China is all about the people we are doing business with – they have no connection to geopolitical events, and should not be judged as having any connection to it – in the same way I do not wish to be defined by the politicians who claim to represent me.

We have 26 years of experience working with fantastic people in China – cross-cultural understanding is improved through personal experience and relationships, and ruling out China as a supplier based on the MSM media narrative is not only ruling out 30% of global manufacturing capacity but also ruling out access to some of the best suppliers on the planet.

## Summary

I hope this document has raised some useful thoughts on the challenges involved, but with your eyes open and the right decision making it can open up opportunities to long term constructive relationship that produce profit month after month. If you want some help – or just a confidential chat – please feel free to call me on 01225 460 388 and I will be happy to try and help.

If you want some help – or just a confidential chat please feel free to call Alex on:

**01225 460 388**