



CHINA²WEST SERVICES™
Quality Manufacturing Solutions

Beginners guide to Outsourcing Manufacturing Operations to China

Outsourcing Manufacture to China?

China has embarked on unprecedented economic growth since its market opened up three decades ago, rising to become the world's second-largest economy today. Thanks to its prudent management under the 12th Five-Year Plan, a new path towards sustainable and balanced development, alongside a focus on boosting domestic consumption, is opening new opportunities in China for continued industrial innovation and business expansion.

Elsewhere, China's 'going out' strategy over the past decade has spurred great promise, with its dynamic enterprises investing overseas while expanding China's economic influence worldwide – one that continues to be a lighthouse for growth in spite of a challenging global environment.

We are all aware of the fact that China is one of those markets that offer you the facility of manufacturing a wide variety of stuff, no matter if it is garments or Hi-Tech electronics. China is well known for offering some of the most affordable solutions and this is why we often find companies going through the details of manufacturing in China pros and cons and then coming to the right decision.

With over a decade of experience in offering Quality Manufacturing Solutions in China, C2W has identified several key aspects that are needed to underline when a company is planning to start to out source its production in China. Here we share some of our expertise in the Know-How when outsourcing production to China.

Finding a supplier in China might seem easy, due all the resources and databases available now days, but finding a reliable one, might require bit more of work and some expertise. Here we enlist the better ways when finding a reliable supplier is needed:

1. Do it yourself, from the comfort of your place.

Use a manufacturers directory website such as Global Sources or Alibaba, which list hundreds of thousands of Chinese manufacturers and do some filtering out of bad actors.

There's bunch of examples of people that has outsourced its production to China and had find a reliable supplier through this sites, but in the other hand still some horrible stories about people who has got scammed. These websites generally work better when the product is a relatively simple and standard product and neither quality nor customization are paramount.

supplier
供應商
gōng yìng shāng



2. Do it yourself, fly to China.

After doing some research in websites like Global Sources or Alibaba, come up with 1-10 potential suppliers and then get on an airplane and visit them. There is a lot to be said for this in that visiting accomplishes three important things:

- 1) It allows you to take a look into the facility of the Chinese manufacturer that may be making your product and a lot can be gleaned from that.
- 2) It gives you the opportunity to meet the key person or people at the Chinese manufacturer that potentially may be making your product and a lot can be gleaned from that.
- 3) It lets your eventual Chinese manufacturer know that you take your products seriously enough to come to China to make sure they are made correctly.



3. Attend to Trade shows and conventions

By visiting some specialized trade shows you'll have the opportunity to get to know hundreds of suppliers that have the expertise in manufacturing that product that you are planning to out source, and also in enables you to talk directly to some of the representatives of the factory and see live some of the product samples that they already have done. Also is a good opportunity to take a look to its competitors and evaluate the different possibilities before choosing a manufacturing facility.



4. Engage an intermediary

Name it (trading company, sourcing agent or factory representative), hire them to conduct this research on your behalf. This you are going to have to pay for, one way or another.

It should go without saying that you should first determine whether you need an intermediary and if you do, you must choose that person or company very carefully. What does need to be said though is that if you are using an intermediary, your contract with your intermediary and the contract with the manufacturer should mesh and should be written so as to protect you, and not your intermediary or your factory.



2 Business Culture: understand the “Guānxi”

5

Despite the fact that China has passed through a modernization stage over the last 25 years, it can still be as difficult to understand for a westerner doing business there for the first time. Understanding and accommodating those cultural differences is primordial. One example is that business in China is based on relationships (Guanxi) as opposed to the western world where business is transaction based and primarily focuses on economics. That doesn't mean that economics aren't important. It means that collaborating closely with a Chinese partner like a factory owner on the details of a mutually beneficial business model can come only after the other party trusts the other.

What is Guanxi?

Informal networks, using the back door, investing in relationships, calling in favours, underground economy, and so on. Guanxi is all of it and more. In fact it is a highly sophisticated parallel economy which subverts a totalitarian system and its bloated, politicised bureaucracy.

The term guānxi means **RELATIONSHIPS** or **CONNECTIONS** it's composed by two characters:

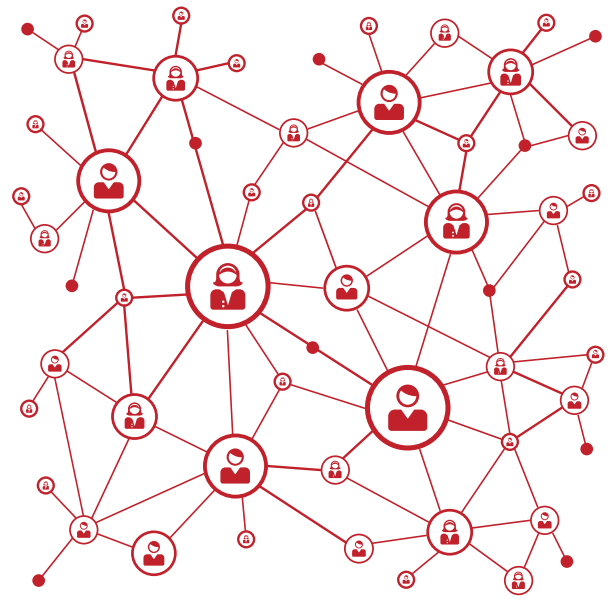
Guān: to close (v) or barrier (n) and

Xi: to tie (v) or system (n)

关系
g u ā n x i

Guanxi is deeply embedded in Chinese culture. It is more than just barter or exchange because these are usually one-off transactions.

Perhaps it would be more accurate to describe someone's Guanxi circle or network as an intricate web of relationships. This web encompasses a person's influence and obligations and can extend in an infinite number of directions. The relationships formed by these associations are generally considered lifelong.



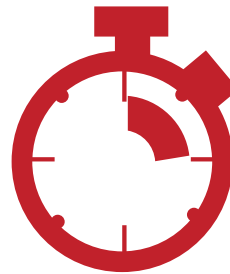
Relationships in the inner circle are nurtured by the practice of reciprocating favours. This is a system of mutual obligation where, “I scratch your back, you scratch mine,” is the modus operandi. Favours can be called in at any time: from weeks to years to decades.



give and take

Guanxi is reciprocal: It doesn't simply involve monetary transaction from one person to another for a favor.

At its core it's characterised by activities of trust and reliability between people of success of all parties involved.



Guanxi is about building strong relationships, and strong relationships take time to be built, and time means money when talking about business.

3 Get to Know your supplier: Quality Control

Before placing an order with a new manufacturer it is important to ensure that the supplier has adequate production capability, machinery, staff training, on job supervision, working conditions and social accountability, management systems and in-house quality control practices and processes. Pictures from the supplier website or a glossy brochure are often a far cry from the reality of the daily workings of the factory.

Factory audits should be placed following international ISO 9001 and SA8000 defined standards and auditing practices to verify the legitimacy, capability, suitability and ethical standard of your selected facility for your specific manufacturing activities before you place your production order.

Two main audits/ inspections should be placed before the start of the production to ensure the best results:

- Pre-Production inspection
- Social Accountability Audit



POR (Pre Order Review)

The Pre-Order Review (POR) or Pre-Production inspection (PPI) is completed after your lead supplier has been selected and approved ahead of actual order placement or immediately after your PO has placed. It can be used as a stand-alone inspection or as an integral part of the manufacturing management process.

The purpose of the inspection is to ensure that all tooling, materials, machinery, personnel and documentation are in place for mass production to commence and critically that your supplier is 100% clear on your product specification and order requirements ahead of undertaking any production activities. A typical POR will cover some or all of the following key verification points depending on the specific form, function and construction of your product and capability of your selected manufacturing partner.

- Purchase Order Review
- Product Specification Review and Signoff
- Quality Assurance Planning
- Production Schedule Mapping
- Golden Sample Review
- Subcontractor Review and Quality Control Planning
- Raw Material Analysis and Laboratory Testing
- Component Verification
- Factory Production Management Review
- Factory Resource Planning and Review
- Assembly Line Setup
- Machinery and Equipment Inspection
- Tool, Mold, Die, Jig or Fixture Maintenance Review
- Corrective Action Review - Previous Order Issues

Social Compliance Audit

The corporate social audit (CSA) is ensuring that the manufacturing companies whom you are dealing with are maintaining social rights. Social compliance in simple terms refers to the manner in which an organization treats its employees, their viewpoint on social responsibility and the environment. It is the minimum code of conduct which directs how every worker should be treated with respect to work hours, work conditions and wages. For ensuring that an organization meets the standards of diverse environmental laws, conducting social compliance audit may be necessary.

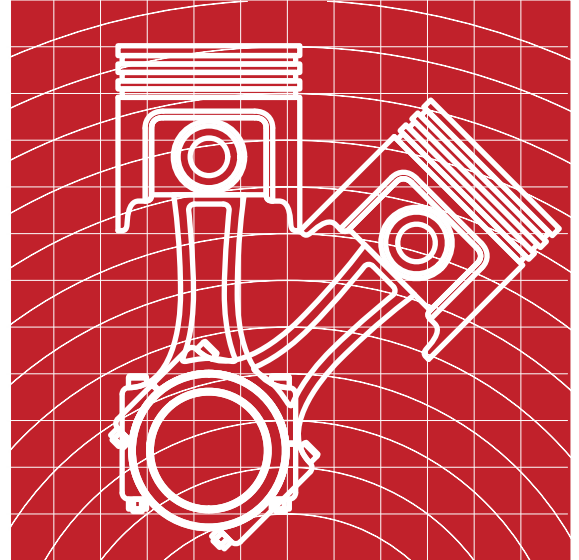
The audits are carried by the professionals who are vastly experienced in social responsibility audits and maintain SA8000 international standard. This includes establishing and continuing in meeting code of conduct, ethical requirements and human rights. As compliance lowers one's peril of contributing to environmental and social harm, it is always best that their supply chain as a whole conforms to their program. The social compliance audit programs performed in China are characterized by engagement with the stakeholders, systematic long-term approach and above all transparency.



4 Prepare the Production: Make prototypes

Manufacturing a product in China and any where else requires more than just a manufacturing facility, creating a working prototype or finding someone who can do it for you is the first step in the manufacturing process.

Having set the technical draws and the CAD files correctly is the first part of the creation of the prototype, after you and the manufacturing facility had agreed the type of molds and quality of the prototype, either if it's just a 3D sample or a fully working one, there is quality and design testing and tweaking to be done before placing the final order.



At each stage of development, and every time is received the newer version of the product, washed, dried, pulled, stretched, zipped, unzipped, must be done. Making sure your product will exceed your customers' expectations is a sure way to keep them coming back and referring your product to others.



There are a million little details that should not be overlooked. This is when you get to red flag anything that is wrong before your order is made.

When you find corrections, take pictures, keep detailed notes, make copies, and send notes back to the factory with the sample. This prototyping phase is all about finding the glitches, the goodies, the surprises that might otherwise have been overlooked when your product was in the design phase. Learning what is right and wrong about your product during this part of production is a lot easier to confirm and/or correct than when your product is in production!

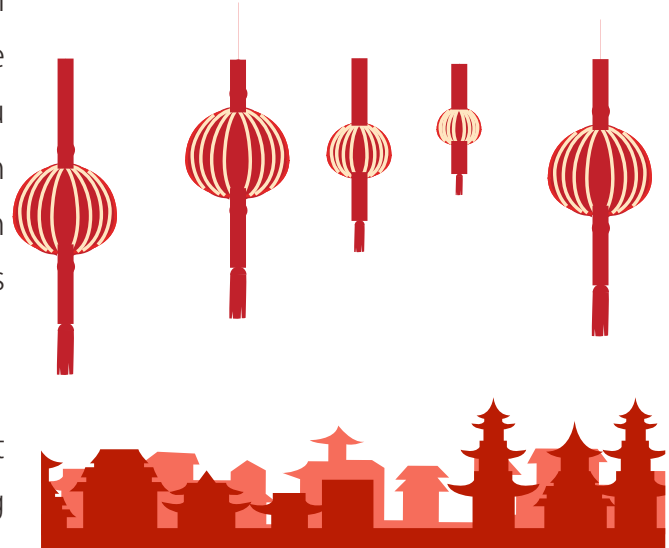
Ideally, you want to have a dozen or so finished prototypes. Manufacturers will want one or two samples sent to them as a reference to compare to the finished product their factory is making.

5 Ready to go: Placing the order

After you have received a quality sample and decided which factory or factories will get your business, it's time to place the order. Most factories will request a purchase order, and you should want to create one. This is a legal document between you and the factory -- if you have left out certain information you may have no recourse if something goes wrong. It is important that you are specific and detailed.

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You also need to be aware of local holidays and customs that may affect the delivery date of your goods. For example, during Chinese New Year, which usually begins at the end of January, most of the factories in China close for at least two weeks. If your order is time-sensitive, you need to plan far in advance.



6 Managing the Production

Once you place the order, you will have to pay a portion of the balance due before the factory will begin production. Most factories require payment before the preproduction-run sample is made. Usually the payment terms are 30% at the time of the order, 30 percent when goods get on the boat, and 40 percent when goods reach the final destination, this is always dependent on the Incoterm needed and the agreement between you and the manufacturing facility.

Depending upon the quantities ordered it will take a few weeks to make your product. Quality Control inspections at the different stages of the production process are compulsory, in order to avoid any flaws or misconceptions in the creation of the goods. Normally In Production Inspections shall be performed when production is in < 5% Produced, 10-15% Produced, 40-50% Produced, 75% Produced and 90-100%.

Packing and Pre-shipping Inspections are also key factors on the success of the production and shipping process due that this enables you to make sure that the product will fulfill yours and market requirements and won't be any delays in the importing process.

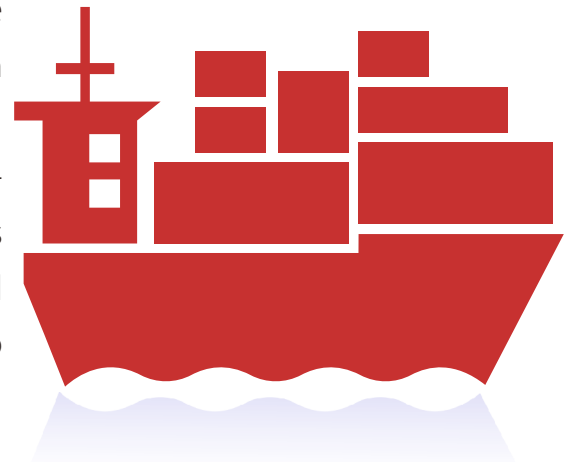


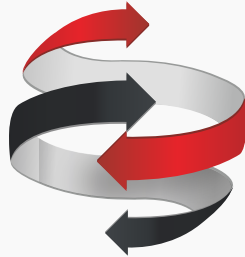
7 Trading Across the borders: Shipping the lot

You have to allow three to four weeks for your product to get from the factory to the western world. From start to finish, from the time the order is actually placed to delivery, it usually takes 70 to 90 days, always depending on different factors such as quantity of the lot, complexity of the goods and quality/market certification needed to be achieved.

Pre Shipping Inspection should be your last checklist point before shipping your goods towards your warehouse, this inspection will allow you to make sure that the goods are being loaded in best conditions including weather, packing and palletising processes, state of the container, and sealing procedures. Noticing that all of this needs to match the invoices and packing list provided before by your manufacturer.

Now on depending to the Incoterm agreed before with your manufacturer you'll need to sort out the customs clearance procedures involving within (including the taxes payment and non tariff regulations procedures demanded by your destination market). Initially, the manufacturing process can be stressful, frustrating, time-consuming, and nerve-wracking. But it gets easier and less intimidating as time goes on. When your product arrives at its final destination, beautifully packaged and ready for sale, there is no better reward.





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