


“THE **CHINA** CHALLENGE”

By Nick Cunningham
President, C2W Group




“Quality is never an accident. It is always the result of intelligent effort.”


John Ruskin



Webinar Structure:

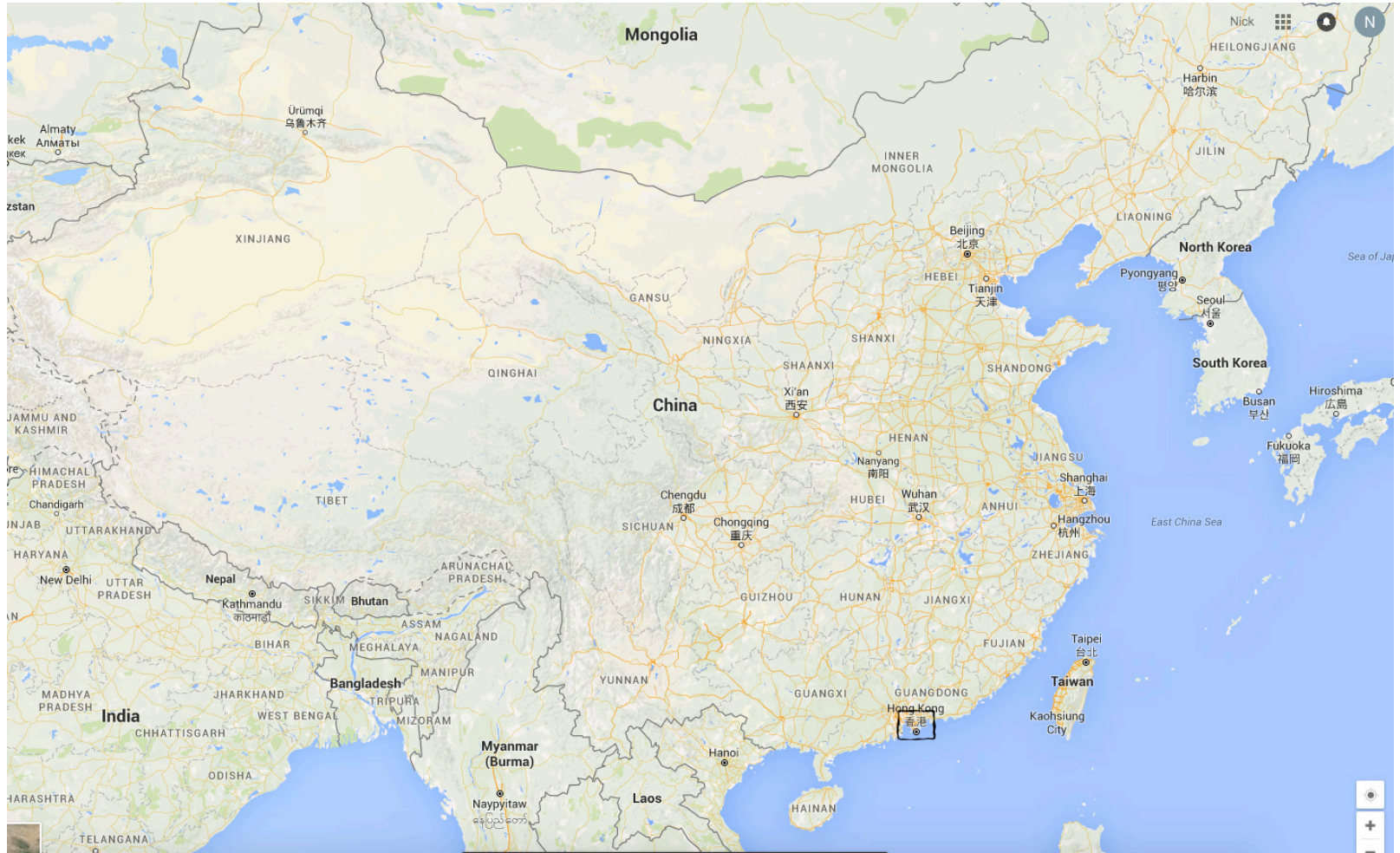
- A bit about me and my company
 - Challenges of doing business with China and some solutions
 - Question and answer session
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Nick Cunningham - Brief Bio:

- Born in the Bahamas to British parents
 - Former Major in the Royal Marines Commandos, retiring in 2003.
 - Went to China in 2004 to look at business opportunities & founded China 2 West Services in 2005.
 - Spent 9 years in China, immersed in culture, learnt chinese and married one of them!
 - Moved to the Bahamas in 2013 to concentrate on business development in North and South America.
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China 2 West Services Ltd - General Introduction:

- China 2 West Services Ltd formed in July 2005.
- Western owned and managed = Western culture, communications and business ethics.
- Registered in Hong Kong and mainland China as WFOE with manufacturing/export licenses.
- 50+ China based staff (including over 10 westerners) with fulltime on the ground presence in Guangdong, Shanghai, Hangzhou, Ningbo, Jiangsu and Shandong.
- Main HQ based in Zhuhai, Guangdong.
- Technical and engineering bias with wide breadth of manufacturing experience and expertise.
- Founding member of the C2W Group family of companies.



Core Service Summary:



Core Service Summary:



Key Manufacturing Expertise:

Our strong team of engineers, inspectors and project managers from different disciplines and our ability to learn new technologies quickly has given C2W a unique advantage over our competitors.

Our ten years of wide ranging manufacturing experience enables C2W to offer its customers reliable supplier choices in virtually every major manufacturing sector:

- Hand Tools and Hardware
- Metal Fabrication
- Injection Molding
- Electronics and Electronic Assembly
- LED Lighting
- Printing and Packaging
- General Sourcing and Branding
- Promotional Products
- POP and POS Displays
- Export Tooling
- Prototyping
- Product Assembly

The China Challenge:


- Communication
- Culture and Education
- Quality, Standards and Delivery
- Legalities and contracts
- Copyright and IPR
- Current/Future issues

Communication:

- General language barrier




Solutions:

- Simplify language
 - Emails: create a structure, use bullet points and numbering system
 - Use chat like Skype or QQ
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Culture & Education:

- The 'Kitty problem' - Older generation lacks education, younger generation lacks experience
- The 'yes' phenomenon
- "Guanxi" – relationships very important
- Losing face - economical with the truth
- "Cha bu duo" or "ke yi" society (that will do attitude...)

Solutions:

- Assumption is the mother of all evils: seeing is believing
 - Physical presence is critical
 - Make relationship personal; accept invitations for dinner and entertainment
 - Confirm & reconfirm ad nauseam!
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Quality, Standards & Delivery:

- Western idea of quality is different – Factory Tiers 1-5
- Factory management often poorly trained and/or disinterested
- International standard QC/QA procedures usually poor to non-existent
- Cutting corners with raw materials and processing (bait and switch)
- Speed and quality trade off
- Packaging WILL be poor quality unless specified exactly
- Alibaba company profiles; myth or reality??
- Social & ethical policy (serious repercussions in the media for non-conformance)
- Certification; is it real??

Quality – What can happen:

Specified:



Received:



Quality – What can happen:



Alibaba myth – the showroom:



Alibaba reality – the factory floor:



Alibaba myth – the company profile:



Alibaba reality – the production line:



Alibaba reality – the factory truck:



Alibaba reality – health and safety:



Alibaba reality – worker conditions:



Solutions:

- Factory audits essential to save time and money in the future
- Understand the difference between price and cost
- Provide 'Golden Samples' and clear working instructions
- Get legal with contracts etc – more to follow
- Make a solid QA plan with critical & minor defects
- Ensure material specs are part of QA plan to avoid 'bait and switch'
- Fix a base raw material price and agree an open resource where both parties can check price fluctuations (LME etc).
- QC Inspections essential – plan a mid and end production check
- Give yourself as long lead time as possible (quality vs speed)
- Understand that if QC inspection fails, product will need rework (delay)
- Do not pay balance until after thorough QC check
- Arrange batch laboratory or functional testing on critical component or materials

Legalities and Contracts:

- Chinese law is complicated – use a commercial law specialist or a professional agency like C2W
- Make a legal contract for each order
- Put detailed product specs into the contract and annexes for engineer drawings/designs
- Include QA plans in the annexes
- Put a delivery date with penalties for late supply
- Include packaging information in the contract
- Include clause for material lab testing and penalties for non-conformance
- Ensure that contract is signed by the companies legal representative (ie the person named on the company charter)
- Ensure that contract is endorsed with official company stamp (same as shown in company charter) and part of stamp covers each page
- Only original copies are legally binding

Copyright and IPR:

- China wants to join WTO so has made major strides in recent years
- Impossible to avoid chinese factories getting their hands on your products

There are several ways to avoid risk:

- Do your research on suppliers (by internet and by factory visit/audit)
- Get a solid NDA in chinese language, recommend commercial law specialists in Hong Kong
- Make sure NDA is signed and stamped as per contract rules
- Get a China patent
- If good Guanxi with supplier then far less risk
- Engage C2W to cover all the above!

Comedy photo to wake you up!



Current/Future Issues:

- RMB strengthening (25% against USD in the last 5 years)

Current/Future Issues:

- RMB strengthening against the USD:

CNY per 1 USD

4 Feb 2006 00:00 UTC - 1 Feb 2016 15:16 UTC
USD/CNY close: 6.57981 low: 6.04370 high: 8.06230



Current/Future Issues:

- RMB strengthening (25% against USD in the last 5 years)
- Inflation
- Labor shortages on industrial coastline (govt incentives inland result in migrants staying in home province)
- Wage increases (last few years wages have increased about 20-30%/year)
- Aging population
- Housing prices
- Pollution control

Thanks for listening!

QUESTIONS??

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