

How To

Import From China More Successfully

Volume I



Table of Contents

Chapter 1 - Find and Select Products for Your Importing.....	6
China - The Great Factory.....	6
What Not to Import.....	6
Beginning the Product Selection.....	7
Chapter 2 - Create Your Own Corporate Identity.....	9
Branding Your Products.....	9
Selecting a Brand Name.....	9
Protect Your Brand.....	10
Chapter 3 - Finding Suitable Suppliers in China.....	11
Searching for Suppliers.....	11
What You Will Learn About Suppliers.....	12
About Trading Companies.....	12
Chapter 4 - Buying Factory Direct or Through a Middleman...14	
Pros and Cons of Working With Middlemen.....	14
Establishing Communication.....	15
Chapter 5 - Incoterms and Tariffs.....	16
Link to INCOTERMS CHART.....	16
Link to ICC BUSINESS BOOKSTORE.....	16
About Tariffs.....	16
Chapter 6 - The Import Calculation.....	17
Other Costs.....	17
Simple Cost Calculation.....	19
Chapter 7 - Visiting Suppliers/Factories in China.....	21
Why Make the Trip?.....	21

Be Prepared for Surprises.....	22
The Importing Consultant.....	22
Chapter 8 - Negotiating Prices and Terms.....	23
Arranging the Meetings.....	23
The Importance of Business Cards.....	23
Before the Meeting.....	25
Factory Tours.....	25
Quality Control.....	26
Engineers and Laboratories.....	26
Delivery Times.....	27
Subcontracting.....	27
Shipping.....	28
Payment Terms.....	29
Negotiating Prices.....	29
Be Wary of Fake Goods.....	30
Chapter 9 - Order Samples.....	32
Samples Are Not on a Shelf.....	32
Detailed Sample Requirements.....	32
Having the Samples Packaged.....	33
Why You Must Pay for Samples.....	34
Order Plenty of Samples.....	34
More About Sample Costs.....	35
Concluding the Visit.....	35
Chapter 10 - Evaluating Samples.....	37
Monitoring Progress	37
Beginning the Evaluation.....	38
After the Evaluation.....	38
Chapter 11 - Choosing an Inspection Company.....	40

Selection Considerations.....	40
Inspection Frequency.....	41
What the Inspection Agency Needs to Know.....	43
Beginning the Inspection Process.....	44
More About the Inspection Process.....	46
The Inspection Report.....	48
Rejected Goods.....	48
Other Advantages Working With an Inspection Company.....	50
Chapter 12 - Placing Your Order With the Factory.....	52
Prompt Purchase Order Placement.....	52
Be Ready With Your Graphic Materials.....	52
How the Factory Organizes the Production.....	53
Finalizing the P/O.....	54
Chapter 13 - Product Liability Insurance.....	60
Chapter 14 - Open Your L/C.....	61
Cash is King to the Factory.....	61
Obtaining an L/C.....	62
L/Cs Are Irrevocable.....	63
Chapter 15 - Selling Products to Your Customers.....	65
Reaping the Benefits.....	65
Chapter 16 - Preparing the Graphic/Cover Materials for Gift Boxes and Instruction Manuals	67
Get Some Help.....	67
Submitting Graphics to the Factory.....	67
Chapter 17 - Proofing Packaging and Instruction Manuals.....	69
Shades of Trouble.....	69
A Better Strategy.....	69
About Paper Quality.....	70

Chapter 18 - Release For Mass Printing.....	72
Chapter 19 - Check Pre-production Samples.....	73
Verifying Production Samples.....	73
Chapter 20 - Release for Mass Production.....	75
Chapter 21 - Constantly Monitor Production Progress.....	76
What Can Go Wrong?.....	76
Capacity Constraints.....	76
Industrial Growth in the North.....	77
Chinese New Year.....	79
Chapter 22 - Arrange the Final Random Inspection.....	80
Scheduling the Inspection.....	80
Starting Early.....	80
The Inspection Report.....	82
When Defects Are Found.....	82
Chapter 23 - Releasing the Shipment or Asking for Re-work and Re-inspection.....	85
Typical Documentation to Release the L/C.....	85
Rework Scenarios.....	86
Chapter 24 - Performing an Incoming Inspection at Your Warehouse	88
The Long Bumpy Route.....	88
Chapter 25 - Delivering Your Goods	89
Chapter 26 - Epilog.....	90

Chapter 1 - Find and Select Products for Your Importing

Importing from China presents businesses both big and small with an outstanding opportunity to greatly increase profit margins and still offer fantastic products at prices consumers are anxious to pay. The big guys might buy massive amounts of products at incredibly lower prices for the mass markets but there are phenomenal opportunities for small and medium size business to make fantastic buys of smaller quantities that still bring huge profits.

This eBook assumes that your company is a small or medium size importer with an established customer base in your home country or a company wanting to start with their own importing but lacking the experience to do so. The biggest and best reason for starting an import business or increasing your import volume is to improve your company's overall profit margin.

China - The Great Factory

China is fast becoming a production super power, manufacturing a hefty proportion of the world's consumer products. It is often called the factory to the world. Because the Chinese economy is in a growth period, cost of manufacturing is very low compared to elsewhere in the world. This presents a fantastic opportunity to you as a seller. By sourcing your merchandise directly from China, you are able to get extremely low prices per unit and turning them around for a hefty profit in your own country.

What Not to Import

As already mentioned in the eBook extract on our website, you need to spend substantial time to evaluate your home market for suitable products, which are in demand or will be in demand and the customers

who want to buy them. As an importer and retailer, you know the first rule to success is knowing your customer(s) and what they will pay handsomely for.

If you only follow what your competitors are already pursuing, you will end up importing too many “Me Too” products. Too much competition drives your profits down. The real China importing opportunity is the right product at rock bottom prices. Therefore, by all means, avoid looking for products that are already being imported by large buying organizations like retail chain stores, department stores or specialized importers with their own distribution channels. It will prove too difficult for you to compete with their buying power and their own buying offices in China.

The general process is to first select a product for import, negotiate a contract with the manufacturer, wait for the product to be manufactured, and then wait for it to be delivered by ship. It may take months for your products to reach your warehouse. A forward thinking strategy is essential to avoid piling up goods, which upon arrival, nobody wants anymore.

Beginning the Product Selection

Looking out for trends can be very time consuming because you need to know where to start. However, there is a shortcut that can save you valuable time. The program is called “Trend Cockpit”. You can download it from the internet by following this link: **Trend Cockpit**

This program is amazing because it allows you to use a cockpit to log on to trendsetters like Amazon, eBay, Google, YouTube, etc., unquestionably the largest retailers on the Internet. Altogether, there are 34 different web addresses for tracking trends. It is a heavy program of 200MB but it's worth downloading because you will also receive a 45

minute video explaining in detail how to use the program and where to find the latest trends.

Trendy products allow you to pull in huge profits when you are among the first importing them to your home country. The key is moving fast, otherwise the selected products are already out of fashion.

The market frequently changes and products which you sold for a couple of years, a decade ago, now may have a life cycle no longer than 8 months or so. This also explains why you must go and visit Chinese manufacturers more frequently to avoid missing the latest developments. You need to know in advance what's in the pipeline and who else other than the manufactures can tell you.

Chapter 2 - Create Your Own Corporate Identity

Since you know that you have to move fast, you better start with preparations for your corporate identity by establishing your own brand name and gift box design.

Branding Your Products

Many importers underestimate the importance of this step and get into trouble later on. Having your own brand name and a convincing gift box design (product packaging) could be the main key to success for your import business. Why is it so important to have your own brand name and gift box design? It immediately establishes your corporate image with Chinese manufacturers and the customers in your home country. It sets you apart from the rest of the crowd and gives it a professional touch.

Creating your own gift box design may seem like wasting money since many manufacturers can also provide you with their own design (usually a very simple one) at no extra charge. Unfortunately, they will provide this service to everyone who is asking for it and these goods may even enter your home market without your knowledge. You just become another look alike retailer in a crowded field.

The result is more competition and you become unable to achieve your planned profit margin. In other words, you wasted a lot of time and money without benefiting from it.

Selecting a Brand Name

But let's start with your own brand name first. You will need some outside help with this because the brand name which you want to choose for your products may have already been registered somewhere else. It would be disastrous if you become entangled in legal battles with the legally

established brand name owner after you have distributed your imported products in your home country.

Ask a lawyer to do this for you because they have the tools to do thorough research and can register your brand name for either worldwide or only local use. Theoretically, your chosen brand name may only be available for a certain kind of product, but I suggest choosing one that can be used for a wide range of products. This supports your future expansion strategy and you don't want to be stopped by not having the suitable brand name to do so.

Protect Your Brand

Another reason for having a custom design is that the Chinese Government has implemented quite a few restrictions that help protect you as an importer. The restrictions prevent factories from producing and shipping products with your brand to other than the legal brand owners.

Once you have created a nice and professional looking gift box design, there is always the risk that some factory or other importer may copy it and use it for other customers not necessarily in your home country. There is not much you can do about it but you now can see why your own brand name is so important. Do everything you can to protect it from the beginning. When you become hugely successful, it will be very valuable.

At this point, your gift box design is only a concept about color combinations, graphics, use of photos, etc. The final design can be only created after you have finalized your product selection.

Chapter 3 - Finding Suitable Suppliers in China

Identifying suitable suppliers in China is not easy because there are tens of thousands of them and you cannot visit everyone. First of all, you must filter down to the suppliers which may have the products which you want to import.

Searching for Suppliers

There are several companies with high performance search engines for either supplier or product searches. As an already successful importer, I have had the best experience with these companies:

Alibaba	http://www.alibaba.com
Global Sources	http://www.globalsources.com
Global Market	http://www.globalmarket.com
Made-in China	http://www.made-in-china.com
Hong Kong Trade Development Council	http://www.tdctrade.com

Alibaba is by far the largest one of these companies. Each company not only provides you with search engines but they are also involved in arranging exhibitions in China and overseas. Additionally, they publish monthly magazines that you can and should subscribe to, after you have found your market niche and know exactly what you are looking for.

For a free sample of **Global Sources** monthly magazine with 13 titles to choose from, click here to [request a free sample](#)

Smart China Sourcing is another site providing information to buyers new to importing from China, to help them learn how, while sharing interesting stories and information www.smartchinasourcing.com

What You Will Learn About Suppliers

Using their search engines places a wealth of information about many suppliers and their products at your fingertips. Usually you will find photos of each product, a short description, and photos, or even videos of the factory and/or their showroom. Additionally, you will find all contact details to approach the factory without having to guess who you should send your e-mail inquiry to.

The verified suppliers on **Global Sources** are physically visited 3 times to confirm they are real companies and export-capable which will provide you with an extra assurance for your sourcing activities.

At this stage, you may not be aware that many of the companies in your search results (mostly the better-organized ones) are not manufacturers but in fact are trading companies or agents. This is not necessarily bad if you are new to importing because they can provide services that the factory is unwilling to provide.

About Trading Companies

In China, it is all about buying power and volume and some big factories are reluctant to cooperate with small volume importers. That is where the trading companies come in because they do have volume from their larger number of customers and are familiar with most factories in their area.

If you have a large enough buying volume, I strongly suggest you to buy directly from the factory, simply because it is cheaper. Also in the case of a claim, you can more easily deal with the factory directly than through a middleman.

Since you will not be able to distinguish between a manufacturer and a trading company, you must directly ask them when you contact the first time.

I believe there is no need to teach you how to write your inquiry e-mails because you are already in business and know which questions have to be asked. The communication nowadays is much easier than 10 years ago. Today, most factories employ marketing or sales managers who can communicate reasonably well in business English.

Chapter 4 - Buying Factory Direct or Through a Middleman

Let me give you some help for your decision with the pros and cons of buying from a middleman. Buying factory direct or through a middleman both have their merits and you have to ask yourself what is more important for you.

Pros and Cons of Working With Middlemen

Pros

- Easier communication for you with a single contact for several factories
- They usually have a better showroom for product selection
- They are experienced in dealing with customers from different countries
- They sometimes invest in their own tooling and therefore have their own products
- Their staff is more proficient in English which makes discussions and negotiations easier

Cons

- Their prices are less competitive because you have to pay for their service
- They may not be able to present you with the latest products because they choose not taking the risk to be first
- They will try directing you to certain factories because they have trade agreements with them
- Solving claims through their help may prove more difficult due to the relationship with their factories. Since they have projects to execute for other customers, their factories may be more important to them than your business.

In some cases, you will be forced to work with an export agent simply because the factory does not have an export license or does not want to invest in extra marketing personnel.

Establishing Communication

After you have browsed the sourcing search engines and narrowed your selection down to a handful of suppliers you must start communicating with them for price inquiries and gathering information about new developments they have in their pipeline.

At this stage, you will find out which factories or suppliers are more responsive and show a better understanding of your needs. If they do not reply as expected at this early stage, how can you expect them to reply quickly later on, after you have placed your orders to them? In most cases, you will however experience that their response is reasonably good. Some companies are also using Skype or MSN Messenger as an additional means for communication, which makes the communication more personal.

Always remember that building up a good personal relationship with your Chinese suppliers and their staff is essential. If you manage that part successfully, you will benefit when negotiating prices or trying to obtain help for solving an imminent problem.

When communicating with the selected factories or suppliers, you should also inquire about their company background (ownership, how much staff, and their main export countries). Learn if a factory is mainly producing goods for countries with a known lower quality requirement. They may not be able to comply with the stricter requirement of EC countries or the United States.

Your brand name should be included in your communication in order to give your company a professional profile. Do not forget that some of these factories will receive hundreds of inquiries from many different importers and sometimes have to make decisions with whom they want to proceed.

Chapter 5 - Incoterms and Tariffs

Below is a link to a chart showing you the most common **Incoterms**, which are the standard definitions of trade terms of the **International Chamber of Commerce [ICC]**. Incoterms is the abbreviation for International Commercial Terms. They are internationally recognized as indispensable evidence of the buyer's and seller's responsibilities under a sales contract.

Link to INCOTERMS CHART

<http://www.iccwbo.org/incoterms/wallchart/wallchart.pdf>

It is also a good idea to visit their online bookshop and find out which books you may need for staying on top in following subjects:

- Model Commercial eBooks
- Trade Reference eBooks
- International Banking eBooks
- Institute of World Business Law eBooks

Link to ICC BUSINESS BOOKSTORE

<http://www.iccbooks.com/>

About Tariffs

Here is a link to the different import tariffs for most countries. It is essential you familiarize yourself with the details because it is needed for your cost calculation - you cannot expect that every factory knows the details for your import costs.

Link to International Customs Tariffs Bureau

<http://www.bitd.org/Search.aspx>

Chapter 6 - The Import Calculation

After you have familiarized yourself with the Incoterms and the Customs Tariffs, you want to establish your import calculation scheme for the selected products.

Other Costs

This may seem to you like too much bureaucracy, but believe me, it is necessary if you want to become successful with your import business. Before you travel to China, you must do some homework and do your calculation for the different products you want to import, otherwise negotiations will be much more time consuming.

You already have a rough idea of the achievable buying price from your recent communications with the suppliers but of course, rough means not final. You should do some reverse calculating because you need an idea at what price you can sell larger quantities in your home country at the highest possible profit margin for your company. Based on that price, you will do your reverse calculation by taking into consideration all costs that apply - only then can you arrive at your ideal buying price.

If you want to negotiate better prices from your factories, you need to first decide which buying terms will apply.

The Incoterms most commonly chosen by importers are **FOB** and **CIF**.

FOB

This stands for Free On Board and its terms are:

- Carriage to be arranged by the buyer
- Risks transfer from seller to buyer when goods pass the ship's rail

- Costs transfer from the seller to the buyer when the goods pass the ship's rail

CIF

This stands for Cost, Insurance, and Freight and its terms are:

- Carriage and insurance to be arranged by the seller
- Risks transfer from seller to buyer when goods pass the ship's rail
- Costs transfer at port of destination with buyer paying such costs as are not for the seller's account under the contract of carriage

Most importers will choose buying at FOB prices because it allows them more flexibility in choosing their own freight forwarder, insurance company, and a greater transparency of total costs.

Factories always want to reduce their own risk by calculating higher freight rates for their CIF price quotations to be on the safe side. This has a negative impact on your landing cost and you have no way of really knowing the breakdown of costs. It is much better to negotiate FOB prices and control the freight rates by selecting the forwarder/shipping company of your choice.

Once you have built up a business relationship with your forwarder you can expect preferential treatment and receive early warnings. For instance, if there is an indication that the freight rates will go up in near future.

The same applies to the insurance costs, which you can reduce by negotiating better terms with insurance companies in your home country.

Here is a comparison of buyer & seller responsibilities for FOB versus CIF:

Services	FOB	CIF
Warehouse Storage	Seller	Seller
Warehouse Labor	Seller	Seller
Export Packing	Seller	Seller
Loading Charges	Seller	Seller
Inland Freight	Seller	Seller
Terminal Charges	Seller	Seller
Forwarder's Fees	Buyer	Seller
Loading On Vessel	Seller	Seller
Ocean/Air Freight & Insurance	Buyer	Seller
Charges On Arrival At Destination	Buyer	Buyer
Duty, Taxes & Customs Clearance	Buyer	Buyer
Delivery To Destination	Buyer	Buyer

Simple Cost Calculation

As an importer, you should always keep complete cost calculations in mind. This requires more than only calculating the landed costs.

Below is a simple calculation scheme, which can be applied for various kinds of products but for some specific products, such as consumer electronics, extra charges may apply that have to be taken into consideration.

I do not recommend buying products at ex-factory prices because you will be involved in organizing the local transport in China which is sometimes very difficult, depending on the region your factory is located. The factory already has the connections and can handle that much more efficiently than you.

Simple Calculation Scheme

EXW (ex-factory selling price)
+ FOB costs (outbound)
= **FOB**
+ Ocean transport
= **CFR**
+ Insurance
+ Finance
+ Provision for bad debts
+ Credit insurance
= **CIF** (landed cost)
+ of equal importance for the exporter's consideration:
+ Import duties
+ Inland transport
= **DDP**
+ Importer's margin
+ Wholesaler's margin
+ Retailer's margin
+ VAT (UK and EU Only)
= **Consumer price**

Chapter 7 - Visiting Suppliers/Factories in China

In this chapter, I want to emphasize the importance of personally visiting your suppliers in China. You may have heard that some consultants do not see the necessity to go to China at all. They suggest their clients order samples and place orders based on the results of their sample evaluation.

I strongly advise you against this and will explain why. My more than 25 years experience of importing goods from China has taught me otherwise.

Why Make the Trip?

There are of course some very large manufacturers in China with quality assurance organizations to guarantee a relatively consistent quality of products. With them, you can be more easygoing but chances are they cannot offer you the most competitive prices because of their bigger organization costs money. Often they have distribution channels in your home country making it less desirable to buy from them.

You will usually deal with smaller or medium size factories which need clear instructions from you and this is best done by meeting face-to-face. One of the issues working with a middleman or agency is that they may be knowledgeable about a wide variety of products, but not necessarily sufficiently experienced in any of them. In the end, there is no way of getting around the fact that the Chinese mentality favors frequent personal contact with overseas trading partners and visiting their factory is the way to go.

In my eBook [How to Make Chinese Factory Visits More Successful](#), I give you more detailed information about preparing yourself and how to proceed when you arrive at the factory.

Be Prepared for Surprises

The smaller or medium size factories can usually offer you the most competitive prices and since you want to maximize your profit from importing, they will probably be your best partners.

By visiting your preselected factories, you can make your decisions about whom you want to strike a deal with after concluding your negotiations.

During your factory visits, you will be in for many surprises and you may have to revise the first judgment you arrived at from previous communication with some of the factories. You will find that some factories are smaller than expected and have only a limited production capacity available on their own premises. They do not want to miss out on your orders and hire a subcontractors to produce for them instead.

This is totally unacceptable because these subcontractors are usually inferior in quality management and care less about your orders because you are not their direct customer. If a factory has this policy, simply don't work with them if you want to stay out of trouble.

The Importing Consultant

Another way you can achieve superior results is by employing a neutral company as your personal consultant. For instance, our company provides this service at an affordable cost. We have gained the needed understanding and knowledge to effectively deal with Chinese manufacturers from more than 2 decades of experience.

Simply send your requirements to us and we will have them executed in the best possible way. You also do not need to worry about inferior factories because we have ways of avoiding them. We have no special relationship with any factory and will strictly follow only your instructions.

Chapter 8 - Negotiating Prices and Terms

My other eBooks with the titles [How to Make Business Negotiations in China More Successful](#) and [How to Make Chinese Factory Visits More Successful](#) cover this subject thoroughly. Here, I give you a brief summary of what you need to consider when negotiating with the factory management. The in-depth eBooks on the subject are available from our website and are a must read for all importers.

Arranging the Meetings

Visiting one or more factories is relatively easy because they will arrange transportation for you and don't even mind taking you to their competitor.

Since the transportation takes a lot of time, you are well advised to make inquiries first with your factories for their exact locations. If you set your schedule according to their suggestions, you can save substantial time, which is better spent in discussions.

It should be obvious that it makes more sense to visit your supplier at their factory instead of meeting them in your nice hotel, which would be so much more convenient. This would deprive you from meeting the factory team you will be dealing with.

The Importance of Business Cards

Before visiting any company in China, whether a factory or trading company, make sure you have your business cards ready.

There is really no excuse for not having enough business cards with you. In all major cities, there are print shops that can print your name cards for you in a very short time. It looks very unprofessional if you cannot hand out enough name cards to your negotiation partners.

It would be also unwise, considering that staff in factories frequently change and move on to other factories. If they have your name card, you can bet that they will contact you sooner or later. These are people who already know your requirements and visiting them in their new factory could be very helpful. They would do anything to convince their management that your company is an important customer and you will receive better quotations for that.

I recently read an article from another author stating: "In my experience almost every sales person that I have met in China who is not the owner of the business, has shown interest in either setting up on his own by "stealing" his employer's customers and product designs or simply doing his own deals on the side through friends, contacts or family."

There is some truth in this although I cannot fully endorse it or maybe I have been lucky all these years. On the other hand, Chinese people want to be recognized. When sitting around the conference table you can only address them with their correct name after you have received their name cards first. For visitors from western countries it is usually quite difficult to memorize all the different names and without their name cards you are likely to fail.

If you have a notebook computer, bring it to every meeting. If you do not have one, consider purchasing one. Believe me, that purchase will be worth all the money you spend for it. Your notebook computer provides you with all necessary information for your business negotiations, plus allows you to show background information about your company or your packaging concept for the product. This is very helpful for factory management. You should also input vital information during your discussions without the need to take extra notes. That is of course easier if you have an associate but with a bit of practice you can manage it alone after a while.

The notebook computer saves precious time once you are back home or you could send your daily reports to your head office for further instructions or recommendations.

Before the Meeting

Don't be surprised if the sales manager or even the company owner meets you at the airport or hotel. This is a good thing because the driver in most cases is not capable of speaking English and you can and should use the time it takes getting to the factory for some small talk with the manager. In this way you gain a first impression with whom you are dealing before the more serious negotiations start.

Try to learn the position your contact person occupies in the management hierarchy, along with who is in control of the factory, and who makes final decisions. This is important because the Chinese may want to delay decisions and will tell you that they have to wait for the decision maker who is not available. Since the whole concept of visiting the factories is to reach your final conclusion about who will be selected as your business partner in future, it is understandable that you need to talk to competent decision makers and not middle managers.

Factory Tours

After arriving at the factory, you will be shown around the premises. Be sure to take your time studying the production lines, their QC arrangements, and the amount of technical equipment the factory is using. Additionally you must check whether the factory is complying with the Chinese labor laws, which prohibit the use of child labor and excessively long work hours. It is important to include a clause in your P/O later to protect your own interest. Since you are only asking the factory to comply with existing laws, there is nothing wrong with it.

When the factory manager walks you through the building(s), you should check out what is in production currently and who the customer is. Ask to see packing materials or shipping samples. These give you a clue about who else is buying from that factory. Sometimes factory management may be reluctant to disclose that information but they cannot stop their production to prevent you from seeing it.

Don't be shy about taking photos. You should ask before but I have seldom been prevented from doing so.

Examine cleanliness and tidiness. If there is no space available to store the manufactured products before they are packed, you can expect that some of them will be scratched or covered by dust, which leads to scratches when the dust is cleaned up.

Quality Control

Seek out their QC management to learn about QC processes for defective products. Are problems simply registered, without taking any further action? Or are they proactively working to eliminate the cause of defects. It could be that a single less experienced worker is creating the problem and if this worker is not replaced, the problem will continue and cost the factory money because they have to rework the products or simply throw them away.

Whether the factory has achieved ISO 9000 or ISO 9001 certification is not so important as long as they take action to improve their production quality on continuous basis.

Engineers and Laboratories

Also, check whether the factory has a decent or fully equipped lab. Of course, this depends of the factory size and the kind of products they are producing. Check whether their engineers are familiar with your home

country requirements. This is a must because it would be very difficult to teach them if they do not already have the necessary know how.

If you want to import to the EC, the factory must only deliver products that comply with the ROHS directives, otherwise you would get into deep trouble. If they say there is no problem, ask them how they can guarantee it. You can also ask them to provide lab certificates or in case of electronic products, they must be able to show you their existing approval certificates from internationally recognized labs. You should refrain from accepting certificates from local Chinese labs because they are difficult to verify.

Delivery Times

You need to ask the factory management about their delivery time during the low and peak seasons so that you have clear information about how long it will take to have your products shipped out. It is also good to ask them about their present order situation, which gives you an indication how well or poorly the factory is performing. If they do not have many orders, there should be an understandable reason. Good or bad, it is important for your decision-making. If the factory won't tell you, there is a chance that their competitors know which proves one more time how important it is to visit the factories in person. A middleman may have his own interest in mind and would not inform you.

Subcontracting

Another very important factor is whether the factory needs outside help for some production processes, these can include plastic injection molding, metal punching, painting, PCB injection, etc., or whether they can do everything in house. If a major part of the production cannot be done in house, there is always the risk that they cannot completely control the plastic injection factory and receive their plastic parts too late for timely assembly.

Factories are usually very reluctant to let you visit their subcontractors and for good reason. They work for other factories as well and the managers don't want to introduce you to competitors you are not currently considering.

Another subcontracting practice to discuss with factory management, is transferring part of the goods to other factories for assembly or production. By all means, avoid this because you will often receive inferior goods. What is the point if you have selected a factory based on a good impression, but your products are really manufactured elsewhere.

Include these subcontracting requirements in your P/O to protect your interest in the event of a claim after the goods arrive at your home country. In many cases, factories have relatives involved because of the firmly held Chinese tradition of "Guanxi". This literally means "relationship" and demands they help each other. Guanxi may have more importance than your request for stable production quality.

Shipping

Since factories sometimes use different ports of loading, you need to inquire which one is usually used because the applicable freight charges will apply and you need that information to calculate your landed cost properly. Some ports will only have one vessel departing per week and you must know this in advance when planning shipments for promotions.

I should not forget to mention that some products should only be shipped by airfreight. Notebook computers and MP3 players are typical examples. The key components of these products are ICs that fluctuate in price and at present, their prices are in constant decline. Buyers must therefore receive their goods quickly. Otherwise they will not be able to make any profit because the buying price could exceed the achievable selling price in their home country. Shipments by air are therefore unavoidable.

Payment Terms

When discussing the payment terms with factory management, ask them for their banking details which allows you to do some background checking before you place orders with them.

Finally, you need to negotiate the payment terms, which are usually by irrevocable letter of credit at sight (L/C). This is usually the safest way to pay the factory and also allows them to obtain loans from their bank to start production on time.

Never ever let the factory convince you to remit a down payment of let's say 20 or 30% of the total order volume by T/T to them to enable them to start your production. Ask yourself why are they asking for this? There is only one reason, which is that the factory has no money and obviously no other orders. They want to jumpstart their production with your cash. If something goes wrong and the likelihood is rather great, you will lose your money and never receive a shipment.

Negotiating Prices

Now you can negotiate your prices with the factory. Inform them about your requested specifications, quality standards, and terms. Otherwise you will receive very competitive prices but for a substandard quality which will cost you dearly later on.

Most important is making sure that the factory management understands your specifications. What sort of things do you need to specify? Have you included labeling, marks, packaging, including the quality of cardboard etc. as well as materials or components to be used? What type and colors of paints and finishes, instructions in a single language, or several languages suitable for your customers? Instructions in Chinese don't go down well in Europe or the USA.

Many importers use the Pantone Color Chart numbers to inform the factory about their color or color combination requirement. I can tell you from my experience that the results will not be very good. Especially if you have several factories involved which need to meet your color specifications. It is much more practical and produces better results, when you use color chips instead. You can buy items having the correct color in your home country and cut off pieces of the plastic material. Always keep several reference samples for yourself and handover to each factory a piece of a reasonable size. Reasonable does not mean a thumbnail sized one because it is not large enough for the factory to make the injection color accurately.

Also, consider the testing requirements necessary during manufacturing and upon completion. Do you need CE or ROHS approvals for importing electrical goods to Europe? If wood is contained in the product or the packaging are fumigation certificates required?

Be Wary of Fake Goods

Does the factory or supplier own the intellectual property rights of the product? Don't believe you can import well known international brands unless you intend to buy them from the brand owner. Gucci, Samsung , Sony, or Philips or any owner of a well known brand certainly won't allow a Chinese supplier to sell their branded products at low prices through the back door! China is probably the world's largest source of fake or pirated goods with well-known logos and branding that are simply copies or worse just a logo stuck on a similar looking product.

Not only will there be little or no warranty but worse, you risk serious legal action and possibly a criminal conviction if you cannot show proof of ownership of the brand name or an agreement with the brand owner when you import. You have been warned now and please don't even

consider trying importing fake goods; it would destroy your reputation at home besides the legal proceedings.

Your request automatically sets the standards for the sample preparation, mass production, and inspection. You now understand why negotiations should be done in person by talking to the responsible managers.

If you use identical procedures for all your negotiations; you will receive directly comparable quotations from the different factories to make your choice from.

Since you will visit one or more factories on the same day or soon after, you will have a pretty good impression about their performance, which also needs to be considered besides the price for your important decision making.

Chapter 9 - Order Samples

After making your decision about which factory to contract with, order your product samples but plan to evaluate them once you return home.

Samples Are Not on a Shelf

Sample preparation, depending which kind of products you want to import, can take considerable time. Contrary to what many people think, factories usually do not keep samples in their warehouse that can be sent right away. The more complicated a product is (for instance home appliances or consumer electronics products) the longer it will take and the more diligence is needed from the factory side to prepare the samples according to your specific requirements.

You have reached a turning point in your own quality control. The first step was your scrutiny of each factory visited during the trip. You should have a good idea how each factory will perform and how talented their management is.

Detailed Sample Requirements

Providing them with detailed information about your sample requirements could become the key to your success. Why is this so important?

Imagine that you did not pay adequate attention to instructing the factory about your sample requirements and they prepare the sample according their own factory standards. As mentioned before, timing is important and you need the samples checked for compliance with your requirements in your home country. It needs to be right the first time.

If the first sample is incorrect, you could take a risk and place your orders in hopes that the factory will get it right the second time. It is not a good

idea to take the risk because there cannot be a guarantee that the factory will actually follow your new instructions.

It is best asking the factory to manufacture new samples. Time starts to become an issue as you wait for new samples to be made and it will take 3-7 days delivery time to ship them to your home country. Add everything up and you have possibly lost a month. This could be crucial if your goal is to be among the first to promote the new products in your home market.

Never place any order with new suppliers before you receive acceptable samples of the proper quality and they have been approved by your QC people or an authorized lab. Anything else is a gamble and you don't want to begin production with that level of risk. Only after establishing a sound business relationship with your suppliers, can you be confident the factory will closely follow your instructions. It is important to set things right from the very beginning.

Having the Samples Packaged

When asking for samples, be sure to request they be packaged according to your specifications. This should be the same packaging the end consumer receives. At this point, they should workout the details to determine how many pieces fit into one 20' or 40' ocean-going container. Along with this comes the details of how many fit into one export carton and if any inner packing needs to go into the export carton.

With this information, you can calculate the freight cost. It may be necessary to change the sales packaging size in order to fit more pieces into one container and save substantial freight charges. It makes a big difference if you can pack for 1,400 coffeemakers in a 40' container instead of only 1,200 pieces and it will certainly affect your selling price.

Why You Must Pay for Samples

Samples are seldom free which is understandable because they are handmade and very labor intensive. Even if they are simple plastic products, the factory has to follow your instruction and injection mold them in a certain color which is very time consuming because the plastic injection machines are usually running at full capacity and the injection is limited to one color at a time. If you ask for several different color samples, they can only make them when they have production in the requested color. Naturally, this can increase the time it takes to receive the samples.

An alternative is painting the samples but the surface of a spray painted object looks different from an injected one and may mislead you to approve something which later proves imperfect.

Order Plenty of Samples

Do not make the error of ordering a single sample per product/color because you need reference samples for several purposes. Common sample needs include:

- Samples for your showroom
- Samples for lab testing
- Samples for photo shooting and gift box preparation
- Samples for your inspection company
- Samples for your sales managers to show to customers

That is only the beginning of a long list and believe me, large buying offices like hypermarkets, department stores, and other large volume importers ask for even more samples because they are aware of the extensive need when introducing a new product.

The worst-case scenario is if you give the only color reference sample to a key customer and after they place an order with you, you cannot

determine which specific to color instruct the factory to begin with. It is a good idea to always keep one or more samples per color locked up in a safe place to avoid embarrassing errors. Due to the limited storage space, factories may not keep their reference samples at all.

More About Sample Costs

You now have the information to better understand why factories are reluctant to provide free samples to new customers. In many cases, you can convince the factory to refund the sample costs after you reach a certain order volume. It is good business to negotiate this in the beginning.

Besides the sample charges, you will be asked to pay the freight charges for the sample delivery. This can get expensive because samples are usually sent by air courier in order to make up lost lead-time and stay on schedule. Factories don't want to pay for these charges and it is often difficult to convince them to do so. If they do so, it is usually only after a successful business relationship has been established.

If you need the samples urgently and is that usually the case, you are better advised to look for a compromise otherwise you may lose the competitive edge in your home market.

Concluding the Visit

After everything has been successfully negotiated and you are certain the factory understands and will closely follow your requirements you will likely have the option to proceed to the next factory or accept a lunch/dinner invitation from the factory management. A meal together can be a great idea to cement the negotiations if you are fully confident the factory can meet all of your company's requirements.

However, if you have the feeling during your visit that this is not the best factory, simply shorten your visit and focus on the next factory, which may be more qualified. We are not living in a perfect world and you cannot expect all factories to be acceptable.

A first hand visit quickly teaches you which are factories to do business with and which you want to avoid. You can do it the hard way and place your orders without a visit but chances are high a mistake will be made. The cost of a bad production shipment will cost much more than the cost of a personal visit to China.

The Chinese understand that you cannot fly in every time something needs attention. You can always hire an in country agent to attend to future activities but if you are going to be an importer from China, it is vital to occasionally visit and develop a good relationship with your factories.

Chapter 10 - Evaluating Samples

After returning from your business trip to China, you will be very busy evaluating the huge amount of information collected during the trip. As suggested before, you will have a much easier task if you used a notebook computer and can print all information at once. If you sent daily reports, your job becomes even easier because most of your information has already been processed by your staff or colleagues during your trip.

Monitoring Progress

As you have learned already, timing is important. Therefore, your company must track progress of the samples to make sure they ship on time. According to my experience, most samples will be delayed in one way or another. There are several reasons for it but one of the main reasons is that nobody really likes to handle samples because it is not productive and therefore this job is often passed to someone at the lower end of the factory hierarchy.

The factory managers may have promised you to deliver the samples at a certain date but they are not making them and have to wait until their sample production staff completes them. You are well advised to monitor progress closely otherwise, you may not be able to recover from the delay. The one who cries the loudest will be heard first.

Without approved samples, you cannot place orders, confirm orders with customers, or begin a sales promotion. In other words, you will lose turnover and the chance to sell products at maximum profit margin. Unfortunately, this step in the product creation chain is frequently underestimated. Now that you are aware of it, get your sample act together.

Beginning the Evaluation

Since you still have not made final a decision about placing your orders, the way your samples are handled by the factory should give you another indication how your production orders would be executed later.

Only after all the samples arrive can you start the evaluation. Check whether the samples meet every specific requirement, e.g. are the colors correct, is the size as requested, and did you receive the correct number of products and samples. Depending how complex the products being imported are, you may elect having the samples evaluated by your own QC department or a special authorized lab.

The numerous recent cases of lead paint tainted toys gives you an idea of what you are in for if you neglect your responsibility for thorough sample evaluation. Household items are easier to check than more sophisticated electrical home appliances or consumer electronics products. Always bear in mind that the submitted samples represent the standard that will be used during mass production.

After the Evaluation

With the sample evaluations in hand, you are ready to decide which factory gets your orders. Evaluating each sample by exactly the same criteria makes this decision easier than if the criteria is changed during the evaluation. If you must change the criteria during mid evaluation, be sure to go back and reevaluate earlier samples.

At this stage, you have several key data points to make your decisions easier:

- Price quote
- Sample performance
- Factory performance
- Your impression of factory management during your visit

- Result from your factory evaluation tour

If a price discrepancy remains between your target prices and the quoted prices it will be relatively easy to convince the selected factories to improve their quote. This should become your standard practice because some factories do not quote the very best price at the first meeting. After visiting China, it is probably fine calling the factory manager to negotiate a better price by phone because it is faster and you have met him in person. Given a good reason why you need a better price, he will seldom refuse to negotiate.

Remember to be fair and inform the other factories that you will not be placing any orders with them. Keep in mind you may decide to place a future order with them and want to be on good business terms.

Factory performance can change very quickly for the better or for the worse. A change of management can sometimes do wonders. Never take for granted that a factory will maintain the same level of performance as you experienced during a previous visit. That means you must not say: "Been there, have seen it all" and take no further action. Doing business with China is a constant evaluation process and only the one that understands the game stays on top.

Chapter 11 - Choosing an Inspection Company

When verifying the quality of goods imported from China you have three choices to consider.

- Let the manufacturer perform a self inspection
- Have someone in your company perform the inspection
- Appoint a third party inspection agency to perform the inspection for you

Selection Considerations

If you really want to be on the safe side, I would not suggest letting any manufacturer check their own quality. It is much too risky and you will only find out after the goods have already arrived at your warehouse that something is wrong and by then it is too late.

Having someone from your company conduct the inspection is actually not a bad idea but prohibitively expensive if that person has to travel to China solely for that reason. What remains, is seeking out an experienced international inspection company with several local offices in China. Key office locations are Hong Kong, Shenzhen, Guangzhou, Shanghai, Ningbo, Xiamen etc.

Why is that important? If an inspection company has only one office in Hong Kong (southern China) but frequently needs to inspect goods for your company in Northern China, you will be charged for their travel expenses including the cost for the accommodation. Over time, the costs add up and it really makes no sense to work with such a company. The better option is relying on inspection agencies with offices throughout China. The travel charges are much lower because the inspectors only have to travel from their nearest office to the factory. Besides, they are

usually familiar with the area and may even speak the local dialect, which makes the communication with the factory staff easier.

It is also obvious that they can visit your factory much faster because they are in the vicinity. This becomes important when an inspection has previously failed and the re-inspection needs to be conducted only 1 or 2 days later. Usually the factory has to pay the re-inspection charges after failing an original inspection due to the factory's own fault. If the re-inspection charges are too high because of extraordinary travel expenses from your inspection agency's head office, you are in for lengthy negotiations with the factory. They will argue and try to avoid the payment. In other words, the practical decision is appointing an inspection agency that already has offices near major production centers.

Inspection Frequency

Depending on the size and importance of the order volume, you may want to consider more than a single inspection after production is complete. There are three primary inspection methods you can choose from.

Initial Production Inspection (IPI)

This inspection takes place when approximately 10-20% of the total order quantity is produced. It normally covers the following criteria:

- Verification of the production schedule
- Check of raw materials
- Partially completed goods
- Finished products and the packaging
- Inspection for appearance, workmanship, color, measurements, quantity, packaging/packing details, compliance with directives etc.

This inspection method is used mostly when the order volume is very large and production needs to be closely monitored from the very beginning to assure the delivery deadline will be met.

The benefits of an Initial Production Inspection are that the status of the production can be verified at every stage. If problems are found early, there is still time to take corrective action and prevent the early problems from affecting the entire order. Since the production is already in progress, you will have a clear picture of the factory's performance at that time.

During Production Inspection (DPI)

This inspection takes place when approximately 40-60% of the total order quantity is produced. It should cover the following criteria:

- Production status monitoring
- Raw materials or key component validation
- Quantity and performance checks on completed products
- On-site tests
- Finished products and their packaging
- Inspection for appearance, workmanship, color, measurements, quantity, etc.
- Verification of packaging material and details

The benefits of a During Production Inspection are that the status of the production can be verified at this stage. By performing this inspection you can verify that corrections have been implemented since the Initial Production Inspection. Additionally you will still have a chance to apply other corrective actions before the final inspection.

Final Random Inspection (FRI)

This is actually the most important of the three inspection categories. It is commonly used to safeguard the shipment when a consignment is 100% manufactured and at least 80% packed.

International sampling plans ANSI/ASQ Z1.4, ISO 1259, BS6001, GB 2828, or any client specific method will be used and a representative

number of shipment samples will be randomly drawn for the visual evaluation.

It will at least cover the following criteria:

- Total quantity of finished product
- Cosmetic and workmanship check
- Measurement and on-site test
- Performance check of completed products
- Inspection for appearance, workmanship, color, measurements, quantity, etc.
- Verification of packaging material, labeling, barcodes, shipping marks, etc.

The benefits of a Final Random Inspection are that usually the most serious defects or deviations from given specifications will be detected and any shipment can be stopped at this stage. However since this inspection is already close to the actual shipment date, there is a risk that the scheduled shipment date cannot be met which could cause serious problems if the requested re-work is impossible or takes considerable time. In other words, a Final Random Inspection alone prior to releasing a shipment may not prevent or uncover risks that might appear at earlier stages of the production process.

It is therefore highly recommended that higher risk products be subject to greater QA intervention such as product design review, supplier evaluation, prototype testing, and the execution of the Final Random Inspection in combination with the Initial Production Inspection and the During Production Inspection.

What the Inspection Agency Needs to Know

You now know the main inspection categories for verifying acceptable quality. But how is it done?

Purposely I have placed the chapter Choosing an Inspection Company after the sample evaluation chapter. Because without having received proper samples, which comply with your given specifications, you are not really on the safe side and should be very reluctant to make further commitments.

However, I assume that you and/or your staff did a very good job by giving the full information to your factory and that the factory also closely followed your requirements. Therefore, it is the right time to provide at least one sample together with all your specifications and requirements to the inspection company of your choice.

I will suggest some of the international inspection companies I have worked with for a long time at the end of this chapter. You can visit their websites, contact them and find out which is the most suitable for your needs.

Since this inspection company will act on your behalf as your savior in case of a non-compliant production, it is very obvious that you must feed them all the information you have to let them do the job. This is even more important when your product is more complex like home appliances and consumer electronic products.

Please consider that they can only follow the general inspection procedures and your specific requirements. If you do not inform the inspection agent about certain details, they will not take the necessary action and can't be blamed.

Beginning the Inspection Process

What happens after they receive your sample(s) and your clear detailed instructions?

The inspection company prepares a checklist which you have to verify and at this stage you can still make corrections.

They inspection company will also take your sample(s) as reference sample(s) for their inspector and you will again realize how important it was to give clear instructions to the factory for their sample preparation process.

If you insist the inspection be conducted without a sample, do not be surprised later on, if the inspector's findings do not match your expectations. The factory will always try to confuse the inspector because they have only one thing in mind, which is "ship out and receive your money as soon as possible".

I do not go into all the inspection details, because my other eBooks thoroughly cover the detailed steps. However, I would like to point out the extent importers have changed the inspection requirements in the last few years.

Home appliances make a good example. Some years ago, Toasters were operated without any bread during the inspection. Nobody cared to test whether bread was toasted consistently from top to bottom and side to side. That has completely changed because end consumers have also become more demanding and don't accept slices of toast bread where the top completely burned and the bottom is still white.

Some years ago coffee makers were operated without ground coffee and it was sufficient when the boiled water dripped into the glass jar proving the coffee maker was functioning properly. Today inspections are conducted with ground coffee along with paper or permanent filters in order to simulate a normal operation. Only then, can the inspector

discover whether the coffee will run fast enough through the filter and coffee without overflowing.

You should get the point about how much effort is necessary to inspect products to make sure that they meet the consumer's expectations for day-to-day use. Therefore, you will understand that only an experienced inspection company can cope with ever-changing requirements and directives. It makes no sense to employ someone without this experience but who may charge less.

After you have selected your inspection company and they have received your sample(s) you must provide them with a copy of your P/O. It is advisable to blank out the FOB prices because inspectors could be tempted to pass such information to competitors.

In general, you should know there are not many secrets in China. Inspectors frequently run into counterparts from other companies when performing their job at several different factories. It may well be that they have lunch together (usually provided by the factory) and talk shop. And talk they will. Important information spreads faster than you can imagine.

FOB prices are not necessarily something you want discussed among inspectors. Don't give them the chance by showing it on your P/O copies.

More About the Inspection Process

The inspection company will include vital information from your P/O in the checklist along with other specifications received from you. Usually the checklist includes various digital photos of specific details the inspector needs to be familiar with. In general, the more detailed information you provide to the inspection company, including digital photos, the better the inspector can perform his duties.

After everything is clear, you will book your inspection(s) with your inspection company. This is usually done by filling out an online application form. Follow this link to view a sample booking form for the major Hong Kong quality control company **Hong Kong Standards and Testing Centre**

[Application Form](#)

Booking the inspection must be arranged at least 5-7 working days prior to the estimated date of production completion or at least the date when 80% of your production will have been completed. It is very important to know, that the inspector will refuse to perform an inspection if the total completed production quantity is less than 80% and if the products have not been packed in their sales packaging and export cartons. The factory will be charged for the inspector's expense for the failed inspection.

After having received your inspection booking, the inspection company contacts the factory and verifies the inspection date because they have to coordinate the manpower and will try to allocate their inspectors to several factory locations in the same area.

Depending on the order quantity, the inspector will randomly inspect a predetermined number of products and file an inspection report with his findings. If you want to know the quantities that will be inspected to comply with the requested inspection standard, use the following link from SQC Online Company. The information is free although you have to register with them to access their service. The Sampling Plans Calculator provides you with fast results. <http://www.sqconline.com/mil-std-105.html>

Following this link provides more details about the sampling plan procedure:

<http://www.itl.nist.gov/div898/handbook/pmc/section2/pmc231.htm>

The international standard presently used for most inspections is ISO 2859-1, a civilian standard derived from the American Military Standard 105D and 105E.

The Inspection Report

After the inspection is performed, you will receive an inspection report by e-mail. Usually no more than one working day after the inspection date.

This inspection report is nearly identical with the inspector's checklist along with his findings and additional photos taken by the inspector as evidence and for your decision making. The inspection company is employed by you as a third party. They do not have decision-making authority to release of the inspected goods for shipment. They have an advisory function and you must make the decision.

Most inspection companies have expended effort simplifying inspection reports to make them easier to understand. Importers are seldom technically trained or engineers. Importers need clear and concise information. Therefore, most inspection reports show only two conclusions:

- a) Rejected
- b) Passed

That is easy to understand and usually you do not need to take further action when the result is "Passed". I can however tell you, that unfortunately you will have more "Rejected" results than "Passed".

Rejected Goods

Be very careful about making a decision releasing rejected goods for shipment. Once the shipment is on its way, there is not much what you can do to protect your own interests. As mentioned before, manufacturers will always try to convince you that the cause for the rejection was a

minor one and you should not worry. The factory may also offer you a compensation payment (minor price reduction) to convince you. It is up to you to accept it but please be aware that the labor cost in your home country is much higher than in China and if you are faced with a claim from your customers, the small compensation will not even cover your own cost.

Since rejected inspections do occur, you have to take them into consideration when planning the shipment date and of course when planning and confirming promotions to your customers at home. Anything else would be asking for trouble. The problem always becomes serious if you have placed yourself under too much pressure, with a too tight of shipment schedule, leaving no room for any unexpected events.

The normal procedure is for the factory to rework the rejected goods within a couple of days and a re-inspection will be called for. The re-inspection is always on the manufacturer's account because they created the problem by lack of performance.

There could be many disputes about the reasons for the rejection if you did not provide clear information about your requested specifications, standards, and specific requirements. Be aware that you immediately change the rules when you release goods with a lower than requested quality standard. The factory will take note, that an on-time delivery is more important to you than the quality and act accordingly during the next production run.

A strict position towards quality issues is your best protection against inferior products. A properly planned shipment schedule will give the factory enough time for the rework and you more negotiating power.

Other Advantages Working With an Inspection Company

When working with an inspection company you gain one very important advantage. In your P/O and your L/C you can specify that a shipment will be only released after you have received an Inspection Certificate from your inspection company. The Inspection certificate is of course only issued when the order has a "Passed" result, which could mean after a successful re-work.

The good thing is that the factory has to comply because if they ship goods without having received the Inspection Certificate (this happens sometimes) they will not be paid from your bank if you included such clause in your L/C. You would be then in a much stronger negotiation position because it would be up to you when the factory would receive their payment.

I believe I have covered the most important points and you will find more in my other eBooks, for instance [How to assure Quality of imports from China](#).

Here are the links to the major International Inspection Companies:

Asia Pacific Inspection Hong Kong	http://www.api-hk.com/
Bureau Veritas Hong Kong	www.bureauveritas.com/cps
HKIC Hong Kong	http://www.hk-ic.com/
Intertek Hong Kong	http://www.intertek-labtest.com/
PRO QC Hong Kong	http://www.proqc.com/
SGS Hong Kong	http://www.hk.sgs.com/
TUV Rheinland Group China	http://www.tuv.com/en/greater_china/home.jsp

Most have offices in other Chinese or Asian cities and will provide an excellent service for you.

Chapter 12 - Placing Your Order With the Factory

With competitive prices, approved samples, and everything else in place, place your orders with the factories without delay.

Prompt Purchase Order Placement

In China as anywhere else, people are highly regarded when they take action. If you visit the same factory five times without placing any order, you will become a low priority to factory management. The consequence is intentionally higher price quotes to discourage you from wasting their time in the future.

There is not much reason to continue requesting information from a factory that you concluded cannot perform to your standards. If you are still trying to make a final decision, shorten the factory list to those you still think will make successful business partners. They will honor this by giving you and your orders preferential treatment.

Before placing your Purchase Order (P/O), be sure to you check one more time about the earliest possible delivery date. Circumstances change and you delivery is an essential part of your Purchase order along with the price.

Be Ready With Your Graphic Materials

With your Purchase Order, the factory will ask you to open your L/C and provide all graphic materials for your gift box, instruction manual, and export carton. If the graphics and artwork has not been finalized by your company, the factory will put a clause in their Performa Invoice (P/I), their counterpart to your Purchase Order, which states that the final delivery date will be only confirmed after all before requested materials have been received.

This will likely impact your delivery schedule. However, it is understandable. The factory cannot start production without receiving the necessary packing materials and that depends on the receipt of your graphic materials. Some importers have requested that finished products be stored temporarily. That is completely impracticable because the finished goods must be packed immediately as they come off the conveyor belt. Additionally, there is a high risk the goods will become damaged if not immediately packaged and the factory does not want to be responsible.

How the Factory Organizes the Production

I should also give you some more information how factories plan their customers' production. Factories have a limited number of production lines that are allocate to customer projects weeks ahead of time.

Besides production capacity, they need to procure the materials and components for the various customer orders. This procurement has widely changed in the last couple of years due to the shortage of raw materials. Nowadays, most factories have to pay for the raw material upfront or upon delivery to their warehouse. "Guanxi" is dominant because without a good relationship with the raw material vendors, factories may end up receiving the ordered material much later than anticipated. Meaning they cannot complete customers' orders on time. If they are lucky and that depends indeed on "Guanxi" they can pay for their raw materials and their components after 30 days. You can see how the factories cash flow depends on punctual payments and their relationship with their banks. This relationship is often more important to their survival than taking additional new orders.

You should also know it is the factory's discretion who gets their goods first. It is primarily an economic decision and a matter of good relationships between the factory and their customers. Please bear in

mind, if you squeeze your factory too much for lower prices, you will be automatically allocated a later production slot, and there is nothing you can do about it.

Finalizing the P/O

Chinese companies do not appreciate when the sledgehammer approach is used to obtain better prices although they may not discuss it openly.

When you issue your P/O to the factory, it is typically your last chance to negotiate prices.

It should be obvious that all information in your P/O must be final. Amending it later demonstrates to the factory that your company was careless drawing up the P/O and it makes dealing with your company somewhat risky in their eyes. Spend plenty of time drafting the content of your P/O before asking the factory to sign it. You may want to provide a draft to them first and have it checked. This helps save time-consuming amendments later on.

Here is a summary of what I suggest you incorporate in P/Os regardless of the product type you are dealing with:

- Clear and detailed product descriptions including requested color, measurements, sizes etc.
- Clear and detailed packaging information including barcodes and shipping marks
- Order quantity
- Delivery date
- Port or airport of loading
- Price
- Payment terms
- Spare parts or spare units if any
- Agreed defective rate

- Guarantee clause
- Indemnification clauses
- Late delivery clause
- Transshipment clause
- Clause for compliance with requirements in your home country
- Information whether goods must be inspected and by whom
- A clear statement that the mass production must comply with the submitted and approved samples

However, don't overdo it. I have seen P/Os which could have been issued by lawyers and you can imagine that factories don't make the effort to employ lawyers just for the sake of checking P/Os. Remember, it's all about partnership and if you are still afraid the factory will cheat you, your factory evaluation was not thorough enough.

Here are additional comments about what must be included in your P/Os:

1. Order quantity - Should match the container loading capacity or the total quantity of products in case you want to place different products from the same factory in one container.
2. Packaging information - Very important because it is a cost for the factory and could be manipulated in their favor. There are for instance several levels of corrugated cardboard quality. These are measured in grams per square meter. If you did not specify the weight you could end up with a 2-layer corrugated cardboard sheet which is so thin that you could easily punch a hole through with your fist. This quality is unacceptable for a sales packaging because you cannot stack sufficient cartons on top of each other. The barcode information is also very important because the inspector has to verify it during the inspection. If a barcode scanner cannot read the barcode properly, the product cannot be registered during checkout by the hypermarket/supermarket cashier. Companies like

Wal*Mart consider this a major defect and would not allow any shipment under such conditions.

3. Spare parts or spare units - This depends on what kind of products you import. For technical products, you can negotiate 1 or 2% of free spare parts/spare units included in the buying price. The factory will of course calculate it. If these goods come without a guarantee or service agreement, you had better negotiate net prices.
4. Defective rate - Putting a clause in your P/O will help to protect your compensation claim in case of epidemic defects or overall poor product performance. It splits responsibilities between the factory and your company. Nobody can demand that production be completely without faults and defects. Therefore, it is fair enough to allow the factory a certain percentage of defects as an upper ceiling limit. You have to negotiate this and usually the factory will have some historic figures in mind. Everything exceeding this percentage will be the factory's responsibility. You may say I will employ a good inspection company, which will help me to protect my interests. That may be true but there is still a risk that something has been overlooked or a defect shows up later in time. You can imagine that this could become very expensive because there will be compensation claims from your customers or demands for price reductions.
5. Guarantee clause - Most countries have laws protecting the end consumer's rights and provide them with a guarantee period of anything between 1-2 years. In some cases, retailers even have extended this guarantee period by another year. Three years is a long time for some products with a limited life cycle. Because it is a legal requirement (except the additional year offered by retailers) you must comply and protect your interests by adding a clause in your P/O. This gives you the right to ask the factory for compensation. Most factories however will not accept these clauses

and you may have to negotiate to find a way around it to still protect your company's interest.

6. Indemnification clauses - This is another important clause that helps you if you become entangled in copyright claims or patent infringement claims. Unfortunately, Chinese manufacturers have a different understanding of copyright and patent infringements from western societies. They think, if they copy a successful product and apply some design modifications, it is their own design and they even go so far to have it registered at the Beijing Patent Registry under their company name. If you ask them, you will usually hear "No problem - it is our design and we have already registered it". This will be of no help if the original designer sues you in your home country. Without an indemnification clause you would be in deep trouble and pay everything yourself.
7. Late delivery clause - This is relatively easy to understand. If your goods cannot be shipped on time due to the factory's fault, they will probably arrive too late for your customer's promotion and that can become expensive as well. You have to be careful here because sometimes it can be your own fault because you failed to give the factory needed information, documents, or approval to start or finish production on time. I cannot provide exact figures because they vary from product to product and company to company but you should at least request the factory to use an express vessel at their cost to make up the lost time. In a worst-case scenario the factory should share or completely pay the compensation costs your customers negotiated with you. Some importers may even include a clause which asks the factory to ship goods by air but in all these years I have seen very few cases where this has really happened and usually factories will not agree to such a clause.
8. Clause for compliance with requirements in your home country - This is another important clause because if the Government Authorities in your home country perform random checks at retail

outlets, you may be in for a surprise when they find that the goods you supplied do not comply with local directives or laws. You should not assume that all factories are fully aware of all requirements in your home country. The opposite is mostly true. You, as the importer, are responsible to import only goods which comply with your countries laws and you must protect your company from damage for non-compliance by adding a clause in your P/O.

9. Information whether goods must be inspected and by whom - This clause is easy. If you want the goods to be inspected, which I strongly recommend, then you have to inform the factory about the details. The inspection procedure was previously explained Chapter 11.
10. Information that mass production must comply with the submitted and approved samples - As already mentioned several times before, you set the quality standard by approving the samples and must enforce it now by not allowing the factory to produce anything else. If you are lenient in this request, your efforts evaluating the samples and factory will have been a waste of time.

Your specific product requirements may deem other P/O clauses be included. For instance the garment or textile industries differ from home appliances. In general, you are supposed to be the expert for your products and should have the knowledge to figure out any other needed clauses.

Please be aware that any P/O is only legally binding after an authorized factory representative signs it. Sometimes factories delay signing for quite some time. In that case, the best solution is calling the person in charge to ask what is going on. There could be a reason for the delay but the factory will try to change the delivery date. Therefore, act immediately rather than waiting in good faith.

Other than adding your specific terms, try to write P/Os which are easily understood and are no longer than 2-3 pages. Anything else becomes too complicated and requires too much effort on both sides to read and comprehend. You should be able to establish the P/O format one time and then copy and paste the contents for other products without starting from scratch.

Don't underestimate the importance of this chapter. If you make mistakes here, it usually will cost you money and respect.

Chapter 13 - Product Liability Insurance

Product Liability Insurance indemnifies the insured against all sums which the insured becomes legally liable to pay in respect of accidental bodily injury or illness to third parties, and accidental loss of or damage to third party property, arising out of the use, misuse, consumption, or handling of insured products or goods.

Whether you are a manufacturer, a vendor, a supplier, or an exporter, you are exposed to the risk of product claims. In fact, any link in the chain of commerce is exposed to the risk. That means you as an importer may also face claims from your customers in your home country.

Product liability claims typically arise from real or alleged defects in design, manufacturing, labeling, warnings and warranties, and packaging. Other causes may arise from the storage, transportation, or handling of your products.

You may believe that your products are flawless. But have you thought about misuse? In some jurisdictions, even the deliberate misuse of a product can be a basis for a liability claim.

Therefore, you may want to check with one of your insurance companies about Product Liability Insurance they can offer to you. This may be especially important if you are considering importing electrical or electronic goods.

Chapter 14 - Open Your L/C

After you have issued your P/O to your factory and they in return issue their Performa Invoice, there is one more important action to be taken. Opening your L/C to your factory or your supplier. Be aware that nothing will be arranged by the factory without first receiving your L/C, especially if your business relationship with the factory is still in its infancy.

Cash is King to the Factory

The cash flow of many factories has become very tight in the last couple of years. They simply do not have money to finance material procurements and the labor costs by themselves. I had already mentioned that they have to pay for components and raw material in advance or upon delivery. And their workers will leave if they do not get paid.

So what actually is a L/C? Exporter and importer conclude a sales contract with the method payment will be made. This is usually by Letter of Credit (documented credit).

A L/C can be thought of as a letter from the importer's bank informing an exporter that they will be paid for a shipment upon presentation of specific documentation. All communication takes place within banking channels. Bankers are not industrial experts and will not make decisions outside of what is documented in the L/C. If the L/C contains discrepancies it can dramatically impede everything.

For example, you want to import a shipment of clothing and the seller (exporter) asks for a L/C. You accept the exporter's terms and need to apply for a L/C from your bank in favor of the seller. L/Cs usually state a time period and manner in which the exporter must provide documentary

proof that they have shipped the goods. Other obligations may also be included.

Obtaining an L/C

Obtaining a L/C is not as simple as just asking for one. Your bank is pledging to pay the exporter on your behalf, so you will be required by your bank to demonstrate that they will be able to recover the funds from you.

Once it has agreed to open a L/C, the opening bank (the importer's bank) will transmit the L/C to its branch or correspondent (the advising bank) closest to the exporter. The advising bank will notify the exporter that credit has been established in their name after receiving the L/C.

Exporters should make sure that they are capable of meeting the terms and conditions of a L/C upon receiving it. This is very important because if the shipment does not match the description in the L/C, payment will be delayed in most cases until the discrepancy is resolved.

Since that may be time consuming and time is what you don't have if you want to be among the first importing new products, you should use the following method to avoid such unnecessary delays.

Before your L/C is officially opened, send your draft to the (exporter) and let them check it. If amendments are needed, you simply correct your L/C draft before you pass it to your bank for processing. Since both parties will have checked the content before, everything should be fine and no delay will occur.

After shipment and presentation of the necessary documentation to the advising bank, if no discrepancies are found, the exporter is due payment. The paying bank could be the advising bank and thus the exporter can receive payment very quickly. If the opening bank is the paying bank,

payment may take a few days. Both importers and exporters may request that the paying bank be in their country as they are looking to the L/C to protect their interests.

L/Cs Are Irrevocable

Importers can ask for any legal terms to be included within the L/C and exporters must provide documentary evidence to prove that such terms have been met. As most L/Cs are irrevocable, once a L/C has been opened and advisement has been made, they cannot be altered or cancelled without the consent of the exporter.

On the occasion when an exporter doubts the solvency of an opening bank, they can request having the L/C confirmed by the advising bank. This means that if the opening bank is responsible for making payment and cannot do so, the confirming bank will pay. For a cost of approximately 1% of the cost of the L/C an exporter receives a fair amount of added assurance.

In summary, an L/C is:

- A formal document of payment
- Opened by a party wishing to import
- Communicated through banking channels
- Paid by the opening bank within a specified timeframe upon presentation of stipulated documentation

The cost of a L/C to an importer is often a fixed fee plus a percentage or a percentage with a minimum commission. Additionally, exporters will be required to pay a variety of costs. When a L/C is not payable on sight, costs increase. This is also the case where more than two banks are involved, exporters request confirmation of credit, and when discrepancies are found within the documentation, and additions/changes to the L/C are necessary.

There are different kinds of L/C but the most common one is L/C at sight. Other forms of L/C delay payment until a later day, after 30, 60, 90, or 120 days. You will however find, that factories cannot afford these payment terms because it seriously impacts their cash flow.

Chapter 15 - Selling Products to Your Customers

After executing all the necessary steps to get the production process going, it is the right time to ask your sales managers to get into action and sell your products to existing and most importantly to new customers.

Reaping the Benefits

Since you focused ample effort finding interesting new products at very competitive prices, your task should be much easier than selling in a crowded and competitive field.

At the beginning of this eBook I advised you to spend substantial time evaluating the market and specifically the future market and if you did your homework right, you can now reap the benefits from your hard work.

You are the expert in your home market and I will not give you too much advice about marketing your wonderful new products.

All major retail organizations plan their promotions months ahead and most buyers are very happy if they have something new to sell. Your selling price should not be a stumbling block, while still bringing you a handsome profit.

An important factor for your customers' decision-making, besides the product, is the quality of the sales packaging. Specialized Retailers and especially discounters have continuously cut back on expenses for sales personnel, which means a product without good sales packaging (gift box) is difficult to sell.

The more effort you spend to create good sales packaging, the more you will be awarded with larger volume orders.

Chapter 16 - Preparing the Graphic/Cover Materials for Gift Boxes and Instruction Manuals

In Chapter 2, I advised you to create your own corporate identity including brand name registration and sales packaging (gift box) concept.

Get Some Help

During the factory visits, you had sufficient time to present them with your ideas. Now the factory needs individual graphics and instruction manuals for each product ordered. Since this job can be very time consuming if you ordered multiple products, you may choose employing an outside company for the job.

You know that time is money and the factory will not start their production without graphic materials. A company in your hometown can be to be instructed one time in the details and can then work independently on several products. They can also create the concept from the beginning if you choose.

Submitting Graphics to the Factory

What is the fastest and most economic way to submit graphics to the factory?

In recent years submitting graphics has completely changed. Some years ago, completed graphic mockups were submitted to the factories. Today, files are burned on CD-ROMs or even better, and much faster, files are sent to a FTP server.

Graphic mockups are bulky and usually need a special protective packing to assure that they are not damaged during transport. Therefore, the

transport cost is relatively high because extra courier charges apply. However, CD-ROMs are small and can be sent easily and less expensively. There is still a slim chance that the CD-ROM may be damaged during transport.

The best solution is using a password protected FTP server and allowing the factory to download all graphics from there. Since uploading and downloading is relatively easy and convenient for the factory and includes taking advantage of time zone differences, you should seriously consider this latest method. Mockups and CD-ROMs, even when expedited, take several days to get to the factory, compared with instantly downloading from a FTP server.

Sometimes factories do not provide the correct die-cut measurements to your graphics agency. If this is not corrected before the graphics are sent, the factory will ask their printer to print the gift boxes according to your instructions. That becomes very costly because material are wasted and precious time lost. In the worst-case scenario the whole project can fall apart because too much time is lost.

Please take my advice and double check the measurements of the die-cut before you ask your marketing department to begin with their artwork preparation.

Chapter 17 - Proofing Packaging and Instruction Manuals

After the factory receives the final graphics, you will receive their printed proofs of the packaging and the instruction manuals. This takes between 1-3 weeks plus courier time. Of course, you do not need to check the proofs and the instruction manuals if you think the factory is reliable. Unfortunately, my experience is that the factory staff usually has a different understanding of what is acceptable and what is not.

Shades of Trouble

I had projects with products in 5-6 different factories expecting that the colors to be identical because we provided every factory the same information. The outcome was very disappointing because of vast color deviations, which become more obvious when a group of products is placed together on a retail shelf. Retailers don't take well to this.

How does that happen? The factory outsources the package preparation and if you have 5-6 different factories you may have also the same number of different printing companies. Of course, the printing companies try very hard to follow your requests but as I said, any deviation from the original colors can vary greatly. You end up with everything from very bad to quite close.

Your corporate identity strategy suffers when the colors are wrong.

A Better Strategy

You might be tempted to fine tune the printing at each print shop. But that is very time consuming and time is what you do not have. It is also costly because each proof has to be expedited to avoid losing even more time.

Fortunately, there is another way. Put a local company in charge of quality control. Since inspection companies are all about quality control, you can have them check the proofs and instruction manuals for you. You will save time and cost and these companies usually have the experience to guarantee you good results.

One large German retail organization came up with a different idea, which many people were skeptical about in the beginning. They appointed one large printing company in China to do the printing for all of their projects. The outcome was of course much better because there was no color deviation when everything was printed at the same print shop. The only major problem they had to overcome was managing the logistics to transport the printed gift boxes in the right quantity and on time before the production start at each of the factories involved.

There was a side benefit when they asked for 2 quotations for their projects:

- a) With gift boxes and instruction manual
- b) Without gift boxes and instruction manuals

It was interesting to compare the cost each of the factories claimed for their packaging. The cost from factory to factory in many cases was not even close for comparable gift box sizes.

It is a clear that factories have ways to quote different prices for comparable products due to better managerial skills and perhaps better connections to their raw material suppliers and printing companies.

About Paper Quality

Another thing to make sure about is checking the paper and corrugated cardboard quality which the factory submits for approval.

Instruction manuals could be printed on a very thin paper, which lets the printing bleed through to the next page. This is of course totally unacceptable and you must inform the factory immediately to change the paper quality to the requested one. If you did not specify it before, the factory will claim that this is their standard and everything else will cost more money.

It is the same with the corrugated cardboard but the savings for the factory would be even greater if they get their way. Also, the export carton must be checked thoroughly. Since most importers and large retailers maintain warehouses to store received goods before they are distributed, the quality of the export carton must comply with normal operations in the warehouses.

Large retailers have specifications for maximum size and allowable gross weight of export cartons along with the cardboard quality to make sure that they can stack sufficient quantities of cartons on top of each other without damaging the contents. If you are in doubt about the quality, you can ask your inspection company to check on it for you.

In most European countries, export cartons must not be stapled because of recycling requirements. Metal parts and plastic parts must be separated before the paper can be recycled and the separation costs extra money.

Every factory is on a tight production schedule and they depend on the punctual delivery of their components, raw materials and their packing materials. If any one of them is delayed, it automatically delays production and can mean a late shipment.

It is often claimed the factories are unreliable and do not follow given instructions but I ask you to reconsider whether you really gave them all the instructions they needed?

Chapter 18 - Release For Mass Printing

After everything is checked and finally found satisfactory, you instruct the factory that they can go ahead with the mass printing.

After you have done this, there is no easy way out if you want changes later.

Chapter 19 - Check Pre-production Samples

In the meantime, the factory has been busy arranging to begin production. It is now time to check their pre-production samples, which could be from the first day of production.

Verifying Production Samples

Everything you told the factories before should have been implemented in these samples and it is your job to verify it.

Now is the time to take out the reference samples and compare them with the production samples. They should be close or identical but unfortunately, that is not always the case. There could be minor deviations, which could even be an improvement and it is up to you to make the right decisions.

I do not suggest letting this decision out of your hands. Only you or your company representative know the complete picture and should be the ones to release the mass production for all its consequences.

If you employ an inspection company to perform an Initial Production Inspection (IPI) or an During Production Inspection (DPI) you will be in a much better position because they will be on the spot and can talk directly to the factory management and request changes on your behalf.

You can now see how a local representative can save time and money, especially if you are on a tight schedule which sometimes happens for reasons which are out of your control.

The pre-production or early production samples will of course be delivered together with their final gift boxes and instruction manuals and you can check again that all changes have been incorporated by the factory.

If everything is according to your expectations, you must release or confirm mass production without further delay.

Chapter 20 - Release for Mass Production

The release of the mass production will be a major impact to the factory's internal organization. They must allocate sufficient production lines and workers to complete your project on time. They also must have prepared all printed and packing material to pack the finished goods after they come off the conveyor belt. All materials, components, cabinet parts if any, must be on hand to start the production.

There must be sufficient QC staff available and familiar with your detailed instructions. Workers without QC supervision may not deliver the expected results.

I am not going into the details, but you know if some preparations were not completed on time the whole project cannot start smoothly.

Chapter 21 - Constantly Monitor Production Progress

This is an important and necessary follow up task. Assuming everything is going according to schedule if you do not hear otherwise is much too risky.

What Can Go Wrong?

Anything could still go wrong for many reasons. The tooling can become damaged and the factory has to stop production until it is repaired. The factory does not want be embarrassed telling you the bad news and may not inform you about the delay. They often have a naïve hope of fixing problems without having to tell you about them. It is a gamble that usually fails and you as the importer suffer the consequences one way or another.

It is a good idea to ask the factory for a status report on daily basis if necessary. Certainly ask them to inform you immediately about production problems that come up.

If a problem does arise, ask the factory for an estimated date it will corrected. If the delay is long, check back with them regularly, and have them confirm when the problem is fixed. After the problem is fixed, have the factory confirm the production completion date can still be met. If It cannot, have them provide a new date.

Capacity Constraints

The factory may have limited control over some capacity constraints. These include:

- Available number of production lines
- Number of trained workers

- Injection capacity of their own injection machines or from outside partners
- Sufficient electric power available
- On-time component and raw material supply
- Legal requirement (e.g. allowed overtime working hours)
- Weather conditions such as severe Typhoons can interrupt production

Some of the limitations can be overcome by subcontracting part of the production to other factories in the near vicinity. Unfortunately, this may have a negative impact on the product quality and raises liability concerns.

Many importers do not know the Chinese Government has imposed restrictions on the use of electric power for production. In many cities, factories will not have electrical power 1 or 2 days per week. Of course, the electrical power is not completely cut off but severe penalties are imposed if the factory is caught disobeying the Government instructions. Many factories have purchased electrical power generators to overcome the power shortages. The generators run on diesel and everyone knows how expensive this has become recently. Some factories do not want to absorb the additional cost so they stop production during the electrical shut down period. Without constant communication, you may not know about it.

Industrial Growth in the North

Another important factor is the shortage of workers, especially in the Southern China provinces. You may be surprised by the fact that China, a country of 1.3 billion people, cannot provide enough workers for all the factories. However, it is true. Factories need trained workers and it takes significant effort transforming unemployed young people from rural areas

to skilled factory workers. The result is trained workers are in short supply.

Northern China has undergone dramatic changes in its infrastructure over the last couple of years. Major investments have been made to build new factories on former farmland and the process continues. Compared to a few years ago, the changes in places like Ningbo, Wenzhou, and Xiamen are breathtaking.

Workers that previously migrated to southern China for jobs are now finding them in the north. You might recall the terrible events shown on TV at the Guangzhou railway terminal when approximately a million migrant workers waited for days to catch a train to their home provinces. Severe weather prevented the trains from running on schedule and hundreds of thousands got stuck at the railway station.

You can certainly understand that these people appreciate finding jobs near their northern hometowns rather than going through such an odyssey again.

One reason for the southern migration was for better pay. That enticement no longer exists. With all of the new development, workers in the north are now receiving nearly the same pay as those as in the South.

The factories in Southern China no longer enjoy the luxury of workers competing for jobs. Wages are higher and they have mostly abandoned production of low price products. Southern production has shifted towards more complex and more profitable manufacturing. It should be no surprise that sourcing of really low-end products in Southern China is becoming more and more difficult.

Chinese New Year

The Lunar New Year Holidays are an annual opportunity for workers to travel to hometowns and reunite with family. The opportunity usually only comes once a year. Factories close for at least a complete week and usually for 2 weeks or even 3 weeks.

If you happen to have production completing shortly before the Lunar New Year Holidays or production starting immediately after it, you may be in trouble. Of course, no one will tell you, but from my experience I can tell you, try to avoid these periods because the quality deteriorates. The workers have their forthcoming holidays in mind and lack the concentration to do a proper job.

After the holidays, 10-20% of the workers fail to return to the factories for various reasons. The result is, that again the factory is short of manpower and even if they manage to hire new workers, they have to be trained. It could be your schedule that suffers. Be sure to take precautions if you are forced to run production during this time.

Chapter 22 - Arrange the Final Random Inspection

When it becomes evident that the estimated completion date of your production will be met by the factory (thanks to your continuous communication), it is time to book the Final Random Inspection with your inspection company.

Scheduling the Inspection

This is usually done approximately 7-10 days before the shipment date. As mentioned before, inspection companies request inspection bookings be made at least 5 working days in advance. This gives them a fair chance to coordinate their manpower and to make arrangements with the factory. After receiving your request, the inspector(s) will contact your factory to schedule the date and time of the inspection.

Remember, China is a very big country and the distances from factory to factory are quite large. Therefore, the inspection company tries to coordinate inspections with inspectors who are already in the vicinity. In some cases, the factory may arrange to pick up the inspector up from another location.

Starting Early

Inspector(s) try to arrive early because the production is stopped during lunch, which is one hour long and starts as early as 11:30AM. During that time, management, QC staff, and workers are not available. Inspectors will normally take their own lunch break. If they arrive late in the morning, there will not be enough time to get the inspection started. Of course, there are some lazy guys that purposely arrive shortly before lunch break but most inspectors are tightly controlled and have to report

back to their head office by phone several times each day, especially if they have to inspect an important project.

Once started, the inspector(s) will randomly selected the correct quantity of products from the production lot. They will then compare each production sample for compliance with the checklist requirements.

The following link was provided in Chapter 11 but in case you missed it here it is again:

<http://www.itl.nist.gov/div898/handbook/pmc/section2/pmc231.htm>

The inspector's job is time consuming and for more complex products, such as bread makers or microwave ovens, they may even need two man-days to complete the job.

What is a man-day? The Merriam-Webster Online Dictionary defines a man-day as: "A unit of one day's work by one person". It is the standard definition used by Inspection companies when they invoice their expenses to customers.

Most factories have one or more separate QC rooms for customers' inspectors. This allows them to check the selected samples without interrupting the production process. They are equipped with instruments, which the inspectors need to perform their job duties.

Some really good advice from me is, if a factory cannot offer inspection rooms and equipment, you better refrain from working with them. They do not want you to have their quality checked and probably a good reason for it.

In Chapter 8, I advised you to check the QC facilities of the factory and now you can understand why that is important.

The Inspection Report

The inspector takes many notes of their findings for the Inspection Report. They also take many digital photos to be integrated into the inspection report later on.

After the inspector has finished their inspection, usually late in the afternoon, they will discuss the results with the factory management and ask them to sign a handwritten report. Often factory management disagrees with their findings and refuse to sign. In this case, the inspector must inform his head office immediately because lengthy negotiations are not in your interest. The handwritten report is then faxed to the inspection company's head office for further processing. The inspector may take one or more samples with him as supporting evidence of his findings.

When Defects Are Found

You need some advice about how to deal with the factory management when unacceptable defects are found. Management will immediately try to put you into the corner by requesting advice from you about what is acceptable and what is not. If you or the inspector fails to pay close attention, you can unwillingly set a new quality standard for the production.

A well-organized factory will ask you to sign a production sample you accept and have it sealed. That means anything meeting that standard cannot be challenged in the future.

Receiving a Passed Inspection Report

Assuming everything went according to plan and the inspection passes. The head office of the inspection company issues the final computerized inspection report to you and the factory. Typically within one working day.

The head office of the inspection company can overrule the inspector's findings and amend the inspection report. That might happen after discussing the content with you and receiving your approval.

You should only give approval for minor defects that will not affect your future sales. Remember, you are responsible for quality for your customers and must protect both your and their interests.

Discounts for Defects

Sometimes factories offer price reductions to convince you to accept the defective goods. It would be the cheapest way to escape their responsibility but I have to warn you to think hard before you accept the proposals. If the factory compensates you with a minor price reduction, you have to ask yourself how much it would cost your company if customers at home return part or all of the goods. You end up paying the return delivery charges and could be financially liable if a retailer's promotion fails.

After taking everything into consideration, you may not want to accept the factory's discount and instead ask them to re-work the goods.

Sometimes the factory will propose to re-working the products in a short time period knowing that the inspection company cannot send an inspector for the re-inspection. They ask that you skip the inspection because they will take every precaution to assure proper quality. You may or may not accept this. It depends on your relationship with the factory and whether you are willing to trust them.

The factory has two separate self-interests here. First, they want to avoid paying the re-inspection charges and secondly they simply want the goods out of their factory because space is needed for other projects.

So long as you do not advise the inspection company to issue the Inspection Certificate, you are in the stronger position with more negotiating power.

Now you should better understand why I suggested you avoid a tight shipping schedule. If you must ship to catch your customer's promotion date, you are in for a hard time. One thing you can consider to protect your company's interest is asking the factory to issue a letter of guarantee. In the letter of guarantee the factory should pledge to take full responsibility for all claims resulting from a specific defect found during inspection.

Chapter 23 - Releasing the Shipment or Asking for Re-work and Re-inspection

After the goods pass inspection or you have agreed to accept the inspection result with minor defects and the factory issues a Letter of Guarantee to you, the next step is asking your inspection company to issue their Inspection Certificate. This automatically releases the goods for shipment. The factory is paid from the L/C when the necessary documentation is presented to the advising bank and after no discrepancies are found with the documentation.

Typical Documentation to Release the L/C

- Bill of Lading
- Commercial Invoice
- The Bill of Exchange/Draft
- Insurance Policy or Certificate
- Inspection Certificate
- Detailed Packing List
- Certificate of Origin
- GSP Forma A Certificate if applicable

Some countries require additional documents that would have been noted when your home bank opened the L/C.

After shipment and presentation of the clean documentation to the advising bank the exporter is due payment. If paying bank is the advising bank the exporter can receive payment very quickly. If the opening bank is the paying bank, payment may take a few days. Both importers and exporters may request that the paying bank be in their country to protect their interests.

Rework Scenarios

What happens if the goods are rejected during the inspection? Several possible actions can result.

A first choice is often to have the goods re-worked and re-inspected. In such a case you can ask the factory to re-work the goods and have them re-inspected. Even when accompanied with a letter of guarantee this may not be the best resolution.

When re-work is not an acceptable solution, the next choice can be to have the factory re-manufacture the complete order again at their own expense. No factory wants this decision and will argue and try to negotiate a less costly solution.

A good question is, what could and will they do with the rejected goods? In some cases, they could sell them at a huge discount to less quality conscious customers but this is not easy because the goods carry your brand name and are packaged to your specifications. This not a good solution because you don't want defective goods with your brand going to the market.

Now is the time to bring in an arbitrator to negotiate with the factory. Their first step should be verifying the problem has not been exaggerated by the inspection company (this also happens sometimes). Inspectors can have a different understanding of quality or performance levels. Because the final decision is not their responsibility, they can note a defect and simply pass the ball to the customer. Our company provides arbitration services with a third party neutral judgment. This is a scenario where a solution from your home country is difficult if a representative is not immediately on the spot.

Another important consideration is the latest payment date documented in the L/C. If goods have to be re-manufactured, that date can expire and the L/C will have to be amended at an additional expense.

Chapter 24 - Performing an Incoming Inspection at Your Warehouse

The goods will arrive at your warehouse after a long voyage and clearing customs. The next step is performing an incoming inspection ASAP.

The Long Bumpy Route

You may ask: "Why should I perform yet another inspection?" The answer is your products and their packing had been subjected to constant vibration on the ocean liner for weeks. They have also traveled by truck on substandard rural roads in China. The goods probably have had a few good jolts during the journey.

Complex products can have the quality affected during shipment. Another inspection is necessary to assure quality products are sent to your customers. This inspection is less intense because characteristics like color do not need verification again.

Once the products pass this last hurdle, it is time deliver the goods to your customers

Chapter 25 - Delivering Your Goods

For economic reasons, importers usually cannot wait until the arrival goods arrive to begin selling to customers.

Most goods should have been pre-sold long ago and are now ready for the retailers to begin promoting a hot new product to a hungry market. This entire process should have begun about the time the L/C was opened and the firm order placed with the factory.

Chapter 26 - Epilog

I sincerely hope my eBook helps make your **Importing from China** more successful and that you now have a better understanding about how business is done in China.

During the research for my seven eBooks, I realized most available resources mainly focus on the import business without showing a complete picture from the Chinese point of view.

As an importer, it is essential to learn how everything is interconnected and how to get the best results at each step of the process.

I would like to express my gratitude for buying this eBook from me and hope that you will consider some or all of my other eBooks as well.

Klaus-Dieter Hanke