

A photograph of a scientist in a white lab coat and safety glasses, holding a multi-well plate. The background shows laboratory equipment, including a rack of test tubes and a multi-well plate. The image is tilted diagonally.

Volume V

WebMediaBiz

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Chapter 1 - What is Quality and What is Quality Assurance?

For an importer the correct definition of quality is most probably the following one:

Quality is meeting or exceeding your customer's expectations

In other words, regardless what you think that the quality of your imported products should be, your opinion pales in comparison to what your customer is expecting. Therefore, the customer's definition of quality is the only one that counts.

Growing a successful import business means all of your efforts must focus on fulfilling your customers' expectations.

What Quality Assurance Is

Quality assurance is a formal methodology designed to assess the quality of products or services provided.

Quality assurance includes formal review of carefully selected criteria that can be measured. It means the prompt identification of any problems that arise, taking corrective action to remedy any deficiencies, and evaluation that corrective action taken is effective.

Quality assurance implies that necessary precautions have been taken so that the entire production of a product or service is **within specifications** under a wide variety of operating conditions. This usually requires that the production process be mastered and monitored using measurable indicators.

Throughout this eBook, I will often refer to the term “Supplier” which stands for a factory, the factory’s representative’s office, and a trading company (agent).

Chapter 2 - Avoiding Common Mistakes During Product and Supplier Selection

Many importers do not realize that quality control starts long before production actually begins. In fact, an importer's quality control begins with the evaluation and selection of their supplier in China.

The Trade Show Scam

Let me give you an example of how it usually works. You visit one of the impressive Trade Fairs in Hong Kong, Guangzhou, Shanghai, or Ningbo and talk to as many exhibitors as possible. You come upon one company that has a nice booth, friendly staff, and one of the products you have been searching for. On top of that, their prices are much cheaper than the rest of the exhibitors.

You ask for a catalog along with the company representative's business card and you ask them to note their price quote on the business card. Since you are in a hurry because you still want to meet many more companies that day and other businesspeople are queuing behind you, you tell the booth representative that your company will contact them as soon as you return home.

You are very happy that you had a successful day and found a new trustworthy supplier.

Unfortunately, you already made a big mistake.

Unreasonably Low Price Quotes

Never accept prices that have been quoted to you during a Trade Fair, for granted. Especially if they are much lower than those from other

suppliers. When something seems to be too good to be true, it surely will not be true.

This should certainly be applied to manufacturers in China. If one thing can be said about the Chinese people, it is that they know how to accurately calculate prices.

All you need to do is ask yourself why are the other companies unable to quote you a similarly low price? Simply put, they can't because they have calculated their prices based on their BOM (bill of material) and know exactly what their total cost is. If someone offers you a much lower price, they either did not do their homework properly or are simply not playing fair.

The Story Unfolds

Now let's continue with the story. Back home, you proudly present your great discovery to your sales managers. Together you decide to go ahead with this terrific new product at a bargain price.

Now you have made the next big mistake. Never make a final decision before you receive proper samples from the supplier. Next, the samples must be tested and approved by your Quality Control (QC) staff. At a minimum, the samples must comply with the legal requirements of your country. They should also meet your own high quality standards that you give to the supplier before the samples are made.

You have probably figured out where this story is going but let's continue. Your sales managers do their jobs and begin offering the new product to your customers based on the very competitive price that was quoted to you at the Trade Fair booth.

Your company has just made another big mistake by offering something to your customers based on a quotation from an unknown supplier.

My intention is not to scare you too much, but during my long professional career in China, I have seen cases like these over and over again.

In-house Quality Control

How can you make sure that your company does not become the victim of an incompetent supplier and their sales staff?

The first thing you want to do, if you have not done so already, is to establish your own **in-house quality control department**. That is the first step to making sure that your company has the means to control the quality of all incoming samples or any other quality issues before you place any purchase orders.

Alternatively, you can employ one of the existing quality control labs in your home country. The main point being that it is imperative that quality controls be in place. However, I would consider outsourcing quality control only as a temporary solution if you plan to expand your import business in the future.

It is worth noting that these labs are not shy about charging you extensively for their services. Depending on your import volume, their cost may prove simply too expensive for you to achieve the profit you are expecting.

I suggest that you only consider them for specific tests that are required by your national or local authorities. Another reasonable use is to obtain third party certificates or testimonials that you may need if you have a customer claim needing to be solved with your China supplier.

Having your own quality control department can give your company an edge over your competitors that do not have in-house quality control capability. If your competitors already have this service and you do not, starting a quality control department will level the playing field.

Customers hate filing claims and the extra costs related to quality issues. They prefer to buy goods from a source that provides reliable quality assurance. You should consider the cost of setting up a QC department as an investment in the future of your company.

What size Quality Control Department is Best for You?

At the beginning, you do not want to start with a department that is too large, because you will be learning from experience. Efficiency should be more important to you than size.

The composition of your department depends very much on the nature of your import products. If you are in the textile business, you may want to hire a textile engineer plus one or two assistants. If you are in electrical or electronic products, you need to hire an electronics engineer plus one or two technicians.

To perform their quality tests properly, your specialists will need suitable technical equipment. A note of caution: do not jump the gun by establishing a fully equipped lab at this early stage. That would prove very expensive. The easiest way to determine the kind of technical equipment that is needed is to heavily rely on your engineers after they are hired. They will know what is needed and where to get it. A discussion about equipping the test lab can easily be included in the interview process for the engineers.

How to Assure Quality Imports From China

This is the most reasonable way to establish your own functioning quality control department at an affordable cost and in the least amount of time.

Chapter 3 - Finding and Selecting Products to Import

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 their own importing business but is lacking the experience to do so.

There is usually no better reason for starting an import business or increasing your import volume than to improve your company's overall profit margin.

The China Opportunity

China is fast becoming a production superpower, manufacturing a hefty portion of the world's consumer products. Because the Chinese economy is in its growth period, the cost of manufacturing remains 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 turn them around for a good profit in your own country. You need to spend substantial time evaluating your home market for suitable products that are in demand, or will soon be in demand, and customers who will eagerly buy them. By simply following the same buying strategy your competitors are pursuing, you will only end up importing too many "Me Too" products.

China manufactures millions of different products. Many of which you probably have never even seen in your home country. Delivering the right product at the right time will have a much healthier effect on your profit margin than importing "Me Too" products.

Therefore, by all means, avoid selecting 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 fully staffed buying offices in China.

Timing is Everything

Since it will take months for your products to reach your warehouse, a forward thinking strategy is essential to avoid piling up goods that once they arrive nobody wants any longer.

Spotting emerging trends can be very time consuming, if you do not know where to start. There is a nice software program available that makes your work much easier and saves you a lot of time. The program is called "Trend Cockpit." You can download it from the internet using the following link: <http://netsol.tripleclicks.com/detail.php?item=182009>

This program is amazing because it allows you to use a cockpit to log on to trendsetters like Amazon, eBay, Google, YouTube, and many more. Altogether, there are 34 different web sites that trend cockpit monitors. It is a big program at 200MB but it is worth downloading. Included in the download, you will 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 make a lot of profit when you are among the first to import them to your country. The challenge is to move quickly to have the goods manufactured, delivered, and sold before the trend ends.

The Fast Pace of Change

Today the market changes fast. The days are gone that you could sell the same products for several years. Today, the typical trend lasts about 8 months, maybe a little longer for a strong trend. This is another reason you need to visit Chinese suppliers frequently or you will miss out on new developments. Successful importers always know in advance what is in the pipeline and who other than the manufactures can tell you.

Just selecting trendy products is not good enough. **Quality of the product is as important as selecting the right product to import. You should never ever import products, if you have any doubts about their or the supplier's quality.**

If you keep this in mind, you will naturally have to deal with fewer major quality problems and issues.

The best initial profit means nothing if you have quality problems later and are forced to compensate your customers for their losses.

To sum it all up, you must be sure that you do not only find the right products but also find the best suppliers in China to manufacture for you.

Chapter 4 - Finding Suitable Suppliers in China

Identifying suitable suppliers in China is not as easy as it might seem to a first time importer because there are thousands of them and you cannot visit them all. First of all, you must filter down to those suppliers that may have products you want to import.

How to Find Products and Suppliers

Several high performance search engines can categorize search results by either suppliers or products. I have had my best experience with these search engines:

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. These companies not only provide you with search engines but they are also involved in arranging exhibitions at home and overseas. They also publish monthly magazines that you should subscribe to after you find your market niche and know exactly what you are looking for.

Free sample of **Global Sources** monthly magazine with 13 titles to choose from, click here [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

They provide other comprehensive services that you can check out by visiting their home pages.

Using their search engines will give you a wealth of information about many suppliers and their products. Typically, you will find product photos and descriptions. You can learn something about the companies through short articles and photos. Some even have videos of the factory and/or their showroom. Depending on which search engine you use, you can learn how long they have been in business, how many employees they have, and the dollar value of their annual exports.

An important feature provided to you is contact information to approach the supplier without having to guess to whom you should send your inquiry e-mail.

The verified suppliers on **Global Sources** are physically visited three 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 (mostly the better organized ones) are in fact not manufacturers, but rather they are trading companies or agents. This is not necessarily bad if you are new to importing because they can provide services to you that the factory would be unwilling to provide.

Purchasing Volume and Trading Companies

For Chinese manufacturers it is all about buying power and volume. Some big factories are reluctant to cooperate with small volume importers. That is where the trading companies come in because they purchase high volumes of products for a larger number of customers as well as being familiar with most of the factories in their area.

If you can meet the factory's minimum order requirement, I suggest you buy directly from the factory simply because it will be cheaper. Additionally, in the event of a claim, it is often easier to 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 ask them when you write to them the first time. Still, you may not always receive a completely accurate answer.

Communication with Factories has Improved

Today, communication with the factories is much easier than 10 years ago. Most factories now employ marketing or sales managers that can communicate reasonable well in business English.

After you have browsed the sourcing search engines and narrowed your selection down to a handful of suppliers, you will open communications with them by making price inquiries, asking about minimum order quantities, and gathering information about any new developments they have in their pipeline.

At this point, you will begin to find out which suppliers are more responsive and show a better understanding of your needs. If they do not reply as expected at this early stage, can you really expect they will reply quickly later on after you have placed your orders with them? Worse yet, will they respond if you have a problem they need to solve?

Generally, you will find most suppliers respond promptly. Some companies are now using Skype or MSN Messenger as a more personal means for communicating.

Remember that building up a good personal relationship with your Chinese suppliers and their staffs is essential. If you manage that part

successfully, you will benefit when negotiating prices or trying to obtain help solving any problems.

During early communication with selected suppliers, you should inquire about the company's background, e.g. ownership, how many employees, and their main export countries. If a factory is mainly producing goods for countries known to accept lower quality products, they may not be able to comply with the stricter requirements of EC countries, the United States, and Canada.

Questions to Ask Early

The following questions can get you started determining if the supplier is the right partner for your company:

- What is your FOB price in US\$?
- What is your usual port of loading? They can sometimes offer you the choice of several ports.
- Do you have your own factory, what is the name and where is it located?
- When was your company established?
- Who are the owner(s)?
- How many production lines do you have?
- How many workers does your factory employ?
- What are your main export markets?
 - If the answer is Europe, your next question should be: Which countries there?
- What are your main customer companies? Of course you are mainly interested in customers from your country but it would be interesting to know if large companies like Wal*Mart or Carrefour are buying from them
- What is your delivery time during normal season and peak season?
- Are you subcontracting part of your production and if so which parts?

- Does your factory have its own plastic injection machines?
- Is metal punching done in-house?
- Is your factory ISO 9000 approved?
- In the event the quantity from your order is not sufficient: What is your minimum order quantity per product?
- Which approvals does your company already have?
- Which certificates have been obtained?
- Which laboratory are you using for your approvals?
- What new products do you have that are not shown in your catalog or website?
- When can I see sketches, drawings, or photos of these new products?
- Can you please e-mail me your bank details? You will need this to pay for the sample charges

Within China, you will find factories providing products to three markets:

Serving the Purely Domestic Market

As the name implies, they service the Chinese market only. These factories may have some very modern equipment and talented people. They may also have new buildings and a lot of capital invested in their operations. My experience is that these companies are aggressive in sales and have decent facilities and equipment but do not have the skills or experience to work with international clients.

Working with these factories can be both very rewarding and very frustrating. Usually they are excited about foreign business. They are willing to learn and they go out of their way to be good hosts.

The problem is that they often do not know what they do not know about international standards. They think they know: "Foreign clients are going to be stricter than domestic clients." But when it comes down to it, 9

times out of 10 they either cannot or will not meet the standards that are expected. Whether it comes from unexpected cost overruns or simply the inability to achieve the necessary quality standards, most orders with these companies end up in disappointment. They try. They really want to do it. They have the lowest price. They may have equipment every bit as good as the biggest players in the industry. They are often really nice guys. But you can't sell bad quality products no matter how nice the people making them are.

In other words if you encounter one of these companies, by all means avoid them because your reputation as an importer of good quality products will be at stake.

Serving Mostly the Domestic and Partially International Markets

The difference between these companies and the purely domestic factories is experience and clientele. They can be just as small, just as young in the industry, and have equally few truly talented engineers. However, for whatever reason they have experience working with international clientele, usually via a Hong Kong trading company.

What does a little more experience mean to you? It means your cost will be a bit higher. But it also means that your higher quality standards will be mostly understood and expected. Most importantly, it means that the skill level necessary to achieve your quality standards should already be in place.

If you are looking for the "bargain" in China, this is it. These companies have the skill but not the market positioning. They know they can compete internationally, but they do not have the exposure and are still hungry for bigger clients and more money.

Usually these companies will have some sort of “international” sales department. This usually consists of one of the owner’s relatives that has graduated from college or a non-related English major. This is both good and bad. It is good because you have someone to help you out, someone to talk to inside the factory. But chances are the English major was hired specifically because they have an English degree and may not have a clue about whatever you have produced or even how most of the factory works (or even be able to speak much English).

Other benefits of working with these companies include: they will most certainly have an export license. They should have connections with other factories that provide supplemental products (packaging, printing etc.) that only domestic factories often do not have.

One of the biggest problems you may face from such factories are IP (Intellectual Property) violations. They are still basically working on a Chinese domestic price structure but they are doing QC at a more international level. They have just not done the price analysis to fully understand the direct cost impact.

So, if you have major issues or great-selling products, these companies are the ones that are going to be willing to sell you out, literally. They see what they are missing out on with international retail pricing. They can do the market research (or at least Google searches) and get a pretty good idea of what you’re making on the product they’re manufacturing. They will soon be selling your product to anyone and everyone willing to pay a higher price.

You should never work with such factories if you do not have someone representing your company in China. It is simply too risky especially if you are relatively new to importing.

Serving the Purely International Market

The last type of factory is the kind you will find on the higher-end sourcing websites mentioned earlier.

Their business is completely export oriented. They are fully or at least half foreign owned. Many have a large client with a major ownership stake. Or they may be partially or fully (Chinese) state owned. And while ownership may sound insignificant if you have never worked in China before, those who have worked here (like me) know that this often does make a difference.

This “foreign” ownership, even if it is some Chinese owners from Hong Kong, Taiwan, Singapore, or Malaysia, is different from purely domestic ownership in a number of important aspects.

First, even if they do not actually do business like you are used to in the West; they understand and have had experience with international standards in the past. They will at least have a dose of western style education to boot.

Second, they most likely have an overseas office and may have a factory in another location; which means they are easier to track down if there are problems.

Interestingly most foreigners doing business here seem to support this idea. Just the fact that ownership is not local means that there is a different attitude in the business relationship (varying degrees from factory to factory, of course). Conversely, most Chinese I have talked with have the exact opposite sentiment. I don’t think I’ve ever heard a good word from a Mainlander about an owner or boss from Taiwan, Hong Kong, or Singapore.

I have also worked with a couple of State Owned Enterprises (SOE's) that are in the export business. While they are typically all relatively large, and have multiple "sub" companies, their quality management, level of debt, professionalism, international experience and clientele couldn't be more different compared to those serving the domestic market.

Some of them have thousands of employees and at least a hundred (I am not exaggerating) smaller companies and factories under their corporate umbrella. Their administration people are experienced in doing business with various customers from Western Europe, USA, South America, the Middle East, and even some in Eastern Europe.

They have their own research and development department and proudly show off the products that they had invented themselves and sold to clients in the West. They also have the latest equipment, western trained MBA's, and expect their customers to have both extensive and strict QC requirements throughout production operations.

Before you start thinking, "See, I knew it! If you just find the right factory you can get the same level of service and quality as you'd get in the west", you still need to do your own DD (Due Diligence) on a factory, even the large ones with a good reputation.

You can also employ a local based outside company for the Due Diligence. I will provide you details about companies that can help in one of the later chapters of this eBook.

What Does DD (Due Diligence) Mean?

Due Diligence in Supplier Quality (also known as due care) is the effort made by a SQE professional to validate conformance of products provided by the seller to the purchaser. Failure to make this effort may be considered *negligence*.

Once you have performed DD on a factory you may just be able to let them do their work and have relatively positive results. But just because the factory looks the same or better than other factories and just because they have MBA's working in the glass and steel office building does not mean that you can e-mail a P/O to them and forget about it until the merchandise shows up at your warehouse.

You still need to do QC either yourself or by a company you appoint.

The lesson here is that whatever factory you finally choose; you are responsible for the factory that you work with. You have the choice and you need to do the necessary DD, before you pay any money, to ensure that you completely understand what you are getting involved with.

So how do you pick a "good one"?

First, I suggest that you find through recommendations (not just a website) at least 3-5 suppliers that can potentially manufacture your specific products or are already doing so. Talk with them (online) and get as much information as you can from them and from anyone who knows them.

After you have cut the numbers down to maybe 3 factories, plan to visit them either yourself or send an experienced company that you have confidence in.

If you can afford to visit new suppliers yourself, do it because you learn something new from every visit and gain the ability to tell your customers at home that you have personally visited and selected each of your suppliers in China.

You will find more details and specific information about factory visits in one of my other eBooks for successful importers: [How to make Chinese Factory Visits More Successful](#).

If possible, get product samples from each supplier on your short list. Compare prices, production times, sample quality, excuses for problems, and your personal experience visiting the three. When you are confident, place the order with one, but let them know that if the first order does not go well, you have two other options ready to go.

You should also keep in mind that sometimes the “best factory” is not the best to work with. If you can get what you want from the second best factory and they are easier to communicate with, by all means work with them instead.

Your brand name or logo should always be included in all of your communications in order to present the best image of your company. When you are new to the import industry, you need to stand out from others. Some of these factories receive hundreds of inquiries every week from many different importers. The best companies often have the luxury of deciding whom they want to work with.

Chapter 5 - Deciding Whether to Buy Factory Direct or Through a Middleman

Let me give you some help with this decision by providing the pros and cons of buying from a middleman (trade agent). Both sides have their own merits and you have to ask yourself what is more important for you.

Pros

- Easier communication for you because there is a single contact for several factories
- They usually do have better showrooms for product selection
- They are experienced in dealing with various 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 to take the risk of being first
- They will try to direct you to certain factories because they have trade agreements with them
- ***Solving claims through their help may prove more difficult due to their relationship with the factories. Since they have projects to execute for other customers, the factories may be more important to them than your continued 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 hire marketing personnel.

As you can see from the **Con** points, you may have more trouble solving any quality problems if you are working with an export agent than if you are working directly with the supplier.

Trading companies usually do not have enough manpower to control every factory they are working with. One lesson you will learn about dealing with Chinese manufacturers is that if there is not enough control they start doing things their own way. Their own way may not be much different from what you require, but when it comes to quality requirements, there is no room for deviation.

Therefore, my advice for you is to try and work with the manufacturers directly, whenever possible. You can be more certain about the quality you will receive and you will have the advantage (and the right!) to talk directly to the factories' decision makers in case you need to.

Chapter 6 - Visit Your Short Listed Suppliers in China

In this chapter, I emphasize the importance of personally visiting your suppliers in China. You may have heard other consultants that do not see the necessity of going to China at all. They suggest their clients order samples and place orders based on the results of their sample evaluation. I strongly advise against this and will explain why. I have over 25 years of experience importing goods from China that tells me otherwise.

Of course, some very large manufacturers in China have solid QC organizations that can guarantee you a relatively constant level of quality products. If you choose one of them, you can probably afford to be a little easier going. However, chances are that they cannot offer you the most competitive prices because their superior QC organization cost money. Also, they likely already have a customer base in your home country distributing their products. This makes it less desirable to buy from them.

Why Visit Small and Medium Suppliers

Most likely you will want to deal with smaller or medium sized factories. These companies need clear instructions from you and this can only be done if you sit down face to face to discuss your requirements and expectations.

Remember, this eBook is about assuring quality imports from China. How do you expect to achieve this without ever visiting your suppliers in person to explain and discuss your quality requirements? You need to go over designs and standards. You need to ask them pertinent questions and answer their questions to be positive they fully understand your requirements.

Besides, the Chinese business culture favors frequent personal contact with their overseas trading partners and visiting suppliers is the best way to do this. It will go a long way in developing a good working relationship that will pay off time and time again.

The smaller and medium size factories can usually offer you more competitive prices. Since you are getting into importing to improve your profit margin, they will most probably be the better partners for you.

By visiting your preselected factories you will be in the best position to decide with whom you want to deal with and whom you will entrust with your precious money, but only after you have concluded your negotiations.

During your factory visits, you will be in for many surprises. You may have to revise your first few judgments that resulted from your earlier communication with some of the factories. You will find that some factories are smaller than expected and have less production capacity available on their premises than you had been led to believe. They do not want to miss out on your purchase orders so they asked a **subcontractor** to produce for them instead.

This is totally unacceptable because the subcontractors are almost always inferior when it comes to quality management. More importantly, they care less about your orders because you are not their direct customer. If a factory has a policy of hiring a subcontractor without informing you, simply do not work with them if you want to stay out of trouble. I provide more information about this in chapter 8.

Hiring a Knowledgeable Consultant

Another way that you can achieve good results is by employing a neutral outside company as your personal consultant.

Our company provides these services at an economic cost. We have a deep understanding and knowledge about importing from China based on dealing with Chinese manufacturers for more than 2 decades.

Once you send your requirements to us, we will execute your project in the best possible manner. You will not need to be concerned about inferior factories because our proven and experience based DD process avoids them every time.

We have no special relationship with any factory and will always follow your clear instructions. Here is the link to send your inquiries:

<http://www.webmediabiz.com/consulting.php>

Trip Preparations

Visiting one or more factories is relatively easy because the factory will arrange ground transportation for you. The first factory does not even mind delivering you the second factory, their competitor.

Since transportation takes a lot of time, you will first need to make inquiries with the factories for their exact locations. If you schedule your meetings according to their suggestions, you can save substantial time that is better spent in discussions.

It should be obvious that it makes more sense visiting your supplier at their factory rather than meeting them in your nice hotel, which would be so much more convenient. A hotel meeting deprives you from meeting the entire team you are dealing with.

Before visiting any company in China, whether a factory or a trading company, make sure that 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 quickly print business cards for you if you run out. In the Chinese business culture, it is very unprofessional when you cannot hand out enough business cards to your negotiation partners.

It would also be unwise, considering the high factory staff turn over rate. Key staff members change as they move on to other factories for better opportunities. If they have your business card, you can bet that they will contact you sooner or later. These people already know your requirements. Visiting them at their new factory could be very helpful because they will do everything to convince their management that your company is an important customer and you will receive better price quotes.

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 out 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 that although I cannot fully endorse it, or maybe I have just been lucky all these years.

On the other hand, Chinese people want to be recognized and when meeting around a conference table you can only address them with their correct name after you have received their business card. For visitors from western countries it is usually quite difficult to memorize all the different names and without their business cards, you will almost certainly fail.

If you have a notebook computer, bring it along to all of your meetings.

In case you do not have one, consider purchasing one. Believe me the purchase will be worth all the money you spend for it.

Your notebook computer provides you with all the information necessary to conduct business negotiations and enables you to show your company background information and your packaging concepts to factory management. You can also input information from your discussions without the need to later type your paper notes into reports. This is easier if you have a business associate, but with a bit of practice you can manage typing notes and giving the meeting your full attention. This saves you precious time organizing information when you return home or you could even send your reports to your head office on a daily basis, if further action is needed.

The Trip to the Factory

Upon arrival at the airport, it is not unusual to be greeted and escorted to the factory by both a driver and the supplier's sales manager. The company owner might even show up to greet you and ride with you to the factory. The Chinese truly are good hosts.

This is a good thing because in most cases the driver does not speak English. It is also a good opportunity to use the drive time to make some small talk with the manager. You can begin developing your first in-person impressions before the meetings and negotiations begin. Use this time to learn the position your contact holds in the management hierarchy and who makes the final decisions.

That is important because the Chinese may want to delay decisions at the conclusion of your meetings. They will tell you that they have to wait for the final decision maker who is not available now. Since your whole purpose for visiting suppliers is to make a final selection of your future

business partner, you should expect the decision makers to be present so that you receive their final proposal to base your decision on.

The Factory Tour

At the factory, you will be shown around the premises. Be sure you 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 Chinese labor laws that prohibit the use of child labor and extended working hours. You will definitely want to include a clause in your P/O about labor law compliance to protect your interests. Since you are only asking the factory to comply with existing laws, there is no reason for them to object.

As you make your tour through the building(s), be sure you check out what is currently in production and whom it is being produced for. Sometimes management may be reluctant to disclose this information but you can learn it from packaging materials or shipping cartons.

Do not be shy about taking photos. You should ask first, but I have seldom been prevented from doing so.

Learning Their QC Processes

Look at the cleanliness and tidiness of the factory. If there is no space available to store the completed products before they are packed, you can expect that some of them will be scratched or covered with dust. Even if they clean the dust off before packing the goods, it will cause more scratches and damage.

Ask questions and investigate their QC processes. I typically begin by learning what they do when defects are discovered. Do they simply log the defect followed by reworking it or scrapping it without further action.

Or do they investigate and correct the root cause of the problem?

Because of the high employee turn over rate, a common cause of defects is a new and inexperienced employee. A little additional training or even making the employee aware of the problem often corrects it.

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

Also, check if the factory has a decent or fully equipped lab. Of course this depends on the size of the factory and what kind of products are being manufactured.

Find out if the engineers are familiar with the regulatory requirements of your home country. This can be very important as it would be very difficult to teach them if they do not already have the necessary know how.

If you plan to import to the EC, the factory must deliver products that fully comply with the ROHS directives, otherwise you will be in deep trouble when non-compliant goods reach home. Ask for some type of guarantee if they claim to be in compliance . They should be able to provide lab certificates, or for electronic products, they must be able to show you approval certificates from internationally recognized labs.

Refrain from accepting certificates from local Chinese labs because they are too difficult to verify.

Delivery Dates, Subcontractors, and Other Factory Details

Inquire from management about their delivery times during the low and peak seasons to gain a clear understanding of how long it will take to manufacture and ship your products. It would also be good to ask them

about their order backlog, which will give you an indication of how the factory is doing.

If they only have a few orders, there may be a reason behind it that will be important towards making your final decision. If the factory does not adequately explain the reason, there is a chance that their competitor knows, which proves one again how important it is to visit the factories in person. A trading company may have their own interests in mind and will not inform you that the factory has steadily been losing customers.

Another very important factor is whether the factory outsources part of their production. Common but critical production processes that should be kept in-house include plastic injection molding, metal punching, painting, PCB injections, etc. If a major production process cannot be done in house, there is always a risk that they cannot properly control the subcontractor. This can result in schedule delays and quality problems.

Factories are usually very reluctant to let you visit their subcontractors and mostly for a good reason on their part. The subcontractors work for their competitors and the factory you are visiting would rather not tempt you into investigating other companies. Of course, there can be many other reasons, labor law violations being one of them.

Some companies subcontract final assembly to maintain schedule if they have over committed their own assembly line capacity. By all means, avoid this practice because you will often receive inferior goods. It defeats the purpose of selecting a factory based on a positive evaluation if your products are not really being manufactured there.

Be sure to include a subcontracting clause in your P/O to protect your interests in the event a claim arises after the goods arrive at your home country. In many cases, the subcontracting factories are owned or

managed by relatives. A very important Chinese business concept is called "Guanxi" which literally translates to "relationship". Family demands to help each other can overshadow your need for stable production and acceptable quality.

Unfortunately, a bad Asian business practice is to obtain a purchase order before having a full plan of how it will be manufactured. So, you believe you are ordering 100,000 pieces produced at this particular factory, but what actually happens is this factory is only able to produce 20,000 pieces. They outsource the rest of the production to four or five other factories where they are not able to control the quality and you personally have little or no influence over what occurs at the subcontractors.

If you do not visit your factories, you will not be aware of these practices and may face serious problems later.

Since factories can use different ports of loading, you need to inquire which one is usually used. You need to know the applicable freight charges to accurately calculate your landed costs. Another reason to learn which port will be used is because some ports have only one container ship departing each week and you need this information if you are on a tight schedule. If you need to meet the Christmas sales season or have scheduled a major promotion for a new product, completing production on time but waiting an extra week for it to ship can turn into a disaster.

Also, some products can only be shipped by air freight. Notebook computers and MP3 players are typical examples. The key components of these products are ICs that fluctuate in price. At present, their prices are in constant decline. It is imperative buyers receive their goods within a short time otherwise competitors that air freight their shipment at a later date will easily be able to sell at a price that eats up all of your profit. This makes air shipment unavoidable.

P/O Terms and Conditions

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

Finally, you need to negotiate the payment terms that 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 a bank loan 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 value by T/T 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 are also probably having trouble getting a bank loan. They want you to jump-start production with your cash. If something goes terribly wrong, and the likelihood is rather great that something will, you will lose your money and never receive a shipment.

Before you can negotiate prices with the factory, you need to inform them about your product and manufacturing specifications, quality standards, and any other terms or conditions. Failing to come to agreement first on these issues will likely result in very competitive prices, but for a substandard quality that will cost you dearly later on.

Most importantly, make sure that the factory management understands your specifications.

What sort of things do you need to specify? Included should be:

- Labeling

- Any special markings
- Packaging including the quality of cardboard
- Materials or components to be used
- Types and colors of paints and finishes
- Instructions in one language or several languages suitable for your clients? Instructions in Chinese don't go over 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 that have to follow your color requirement.

It is much more practical and produces better results, when you use color chips instead. You can buy items that have the correct color in your home country and cut off some pieces of the plastic material. Always keep several reference samples for yourself and handover a reasonably sized piece to each factory. Reasonable does not mean a thumbnail sized cutout because it is not large enough for the factory to make the injection color accurately.

Also, consider the tests to be conducted during manufacturing and completion. Do you need CE or ROHS approvals for importing electrical goods to Europe? If wood is contained in the product or the packing, are fumigation certificates required?

Protect Yourself From Copyright Infringements

Does the factory or supplier own the intellectual property rights of the product? Do not 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 that an agreement exists with the brand owner when you import under a brand other than your own or the factory's. Even if it is the factory's brand, you still need to have a written agreement with them to distribute it.

Please take this very seriously and do not even consider trying to import fake goods. It would destroy your reputation at home in addition to the possible legal proceedings.

Making Your Decision

Your requested specifications set all the standards for manufacturing samples, mass production, and inspection of your goods. This should make it clear why negotiations need to be done in person by talking with the responsible managers.

By using the same procedure when negotiating with every factory you visit, you will receive information that is directly comparable for each quote. This will simplify your decision making process. Since you will visit several suppliers during your visit, you will have current impressions about each factories' performance capabilities in addition to the price quotes to make this important decision.

Two of my other eBooks titled [How to Make Business Negotiations in China More Successful](#) and [How to Make Chinese Factory Visits More Successful](#) go into detail on the subject of negotiating with the factory management. What I have provided here is a summary of that

information. If you want more information, these books are available from our website and are a must read literature for all importers.

Chapter 7 - Quality Management System ISO 9000

The objective of ISO 9001:2000 is to provide a set of requirements, if they are effectively implemented, will provide you with confidence that the supplier can consistently provide goods and services that:

- Meet your needs and expectations
- Comply with applicable regulations

The requirements cover a wide range of topics, including:

- Top management's commitment to quality
- The company's customer focus
- Adequacy of its resources
- Employee competence
- Process management (for production, service, delivery, and relevant administrative and support processes)
- Quality planning
- Product design
- Review of incoming orders
- Purchasing
- Monitoring and measurement of its processes and products
- Calibration of measuring equipment
- Processes to resolve customers complaints
- Corrective/preventive actions
- A requirement to drive continual improvement of the Quality Management System

Last but not least, there is a requirement for your supplier to monitor customer perceptions about the quality of the goods and services it provides.

ISO 9001:2000 does not specify requirements for the goods or services you are purchasing.

That is up to the company to define. Your responsibility is to make your own needs and expectations clear for the product and get the factory to agree to meet them. This is discussed in detail in chapter 15 under specifications and AQL requirements.

What does “Conformity to ISO 9001:2000” Mean?

This means that your supplier has established a systematic approach to quality management, and is managing its business to ensure that your needs are clearly understood, agreed to, and fulfilled.

A statement of conformity to ISO 9001:2000 should not, however, be considered as a substitute for a declaration or statement of product conformity.

How Does ISO 9001:2000 Help You in Selecting a Supplier?

ISO 9001:2000 provides some requirements in the purchasing process that includes you, as the customer. These requirements address the following topics:

- Requirements regarding the purchasing information that should be provided so that suppliers clearly understand their customer’s needs
- The ways in which supplied products can be verified as meeting the requirements of the customer (Note that whenever ISO 9001:2000 refers to “products”, this also includes intangible products like services, or software)

You have an important role to play by specifying to your supplier what you actually want. This is often underestimated by importers and must be addressed during your meetings with the factories.

It also has to be included in your P/O and should be as detailed as possible.

You may need to consult with your own technical staff in this process. If you do not do this, you might find that you receive a product that meets all your stated requirements and the applicable regulatory requirements, but which is absolutely wrong for your intended application. So, first of all, you should concentrate on specifying your needs specific to the intended use of the product.

To help with this task consider the following:

- What is the specific product (goods or service) you are buying?
- What impact does this product have on your own business?
- What are the risks to your business if you experience problems with this product?
- How can you be sure that the product you receive will actually meet your requirements?
- What do you know about the reputation and historical performance of your supplier?
- What level of confidence do you need in your supplier's ability to provide you with conforming products on a consistent basis?
- If you decide that conformity to ISO 9001:2000 is important, (based on your assessment of the risks associated with the goods and services you are buying) how can you be sure that your supplier does have a Quality Management System that meets ISO 9001:2000 requirements?
- Are the goods and services you require covered by your supplier's Quality Management System? (You may need to ask for a copy of your supplier's actual certificate or declaration of conformity to find this out!)

How Can You Have Confidence That Your Supplier Meets ISO 9001:2000?

There are various ways in which your supplier can claim that its Quality Management System meets the requirements of ISO 9001:2000. These include:

- **Supplier's declaration of conformity:** A declaration by the supplier itself affirming that its Quality Management System meets ISO 9001:2000 requirements, usually supported by legally-binding signatures. This declaration can be based on your supplier's internal audit system, or on second party or third party audits.
- **Second party assessment:** Your supplier has been assessed directly by its customer (for example by you, or by another customer whose reputation you respect) to check if its Quality Management System meets ISO 9001:2000 requirements and your own requirements – sometimes used in contractual “business-to-business” transactions.
- **Third party assessment:** (Often referred to as **certification** or **registration**) Your supplier hires an impartial third party (a certification body, or “registrar”) to conduct an assessment to verify conformity to ISO 9001:2000 requirements. This third party then issues a certificate to your supplier describing the scope of its Quality Management System, and confirming that it conforms to ISO 9001:2000.
- **Additional confidence** may be derived from the fact that some certification bodies (“registrars”) are accredited by nationally or internationally recognized accreditation bodies, who verify the certification body's independence and competence to carry out the certification process. Many accreditation bodies have multilateral arrangements under the umbrella of the IAF (International Accreditation Forum) to promote worldwide mutual recognitions in support of WTO (World Trade Organization) free trade principles.

Can Suppliers Claim Their Goods or Services Meet ISO 9001:2000?

The answer is no. The reference to ISO 9001:2000 indicates that the supplier has a Quality Management System that meets the requirements of ISO 9001:2000. As previously mentioned, this should provide you with the confidence in your supplier's ability to provide consistent, conforming goods or services. ISO 9001:2000 requires your supplier to monitor the levels of satisfaction of its customers (this includes you!) and use the feedback to improve the effectiveness of its Quality Management System.

What To Do If Things Go Wrong

In the event you are not happy with specific goods or services you receive, you should first of all bring the concern to your supplier's attention. You will typically do this via the normal technical and/or commercial communication channels that have been established. Your supplier is obliged to investigate your complaint, and should take appropriate actions to avoid or reduce the chances of it happening again.

However, if you are dissatisfied with the overall performance of your supplier, (for example if they continue to provide non-confirming products, do not address your complaints, or are not taking appropriate corrective actions) then this is an indication of problems in their Quality Management System. Depending on the response you receive, you should be aware that you can escalate concerns as follows:

- If your supplier has a Quality Management System that meets ISO 9001:2000 requirements, they are required to have nominated a person (the "management representative") with the responsibility and authority to ensure the system is working properly. You should find out who this is, and make a formal complaint.
- If you are still not satisfied with the response from your supplier, and they are certified by an independent (third party) certification body ("registrar"), you should bring the matter to the certification

body's attention. You can find the certification body's name by reading your supplier's certificate. The certification body will investigate the problems during their surveillance audits of your supplier's Quality Management System, or in critical cases, may decide to carry out an additional specific investigation.

- If you do not receive a satisfactory response from the certification body, and it is accredited, you should complain to the relevant accreditation body. Details of such accreditation will appear on your supplier's ISO 9001:2000 certificate. If you have difficulty getting this information, you can consult the list of accreditation bodies who are members of the International Accreditation Forum on the IAF website <http://www.iaf.nu>
- If you feel that you have not received a satisfactory response from the accreditation body, and it is a member of the International Accreditation Forum, you can complain to the IAF <http://www.iaf.nu>

Remember that none of the above will affect your statutory rights as a purchaser, and it may be appropriate to take legal actions against your supplier instead of, or, in parallel with the above channels. The way in which you do this may vary from one country to another.

Chapter 8 - Inspecting Their QC Arrangements

Naturally, you want to know whether your supplier's QC department is performing to your expectations.

Checking the QC Process

A typical example is what happens after one of their QC inspectors finds a defect.

Ask to speak to a QC inspector and ask them what is done when a defect is found. The inspector should show you that they log the defect in a control book. Ask to see the book. When you look at the book you may find out that the same defect occurs repeatedly and all that happens is they continue to document it without taking corrective action.

A proactive QC management would take immediate actions to find out which person is continually making the same mistake and the reason for it. It could be that the worker has not been trained sufficiently or is unaware of the problem or does not know how to solve it.

Only after the defect's cause has been eliminated will production flow smoothly. Not only will quality improve but the factory's costs will go down because they no longer have to rework or scrap parts. Therefore, it is in the factory's best interest to take immediate action and this can only be achieved with the help of a well-trained and educated QC staff.

Other general observations to look for in the QC staff are their assigned workstations in the factory:

- Working directly beside the conveyor belt overseeing the workers
- Working directly beside the main packing area inspecting the finished goods immediately before final packaging

- In the production areas conducting quality tests at different stages of the production process
- In the QC room performing various quality controls best conducted there

QC inspectors are valuable employees. They need years of working experience to become qualified and cannot be easily replaced.

Testing Equipment

The QC department is management's method for constantly monitoring the production quality of the factory. Here is where you really want to find out if you are in good hands or not.

Larger factories have their own QC lab, which may even be certified by an internationally recognized certification organization. This enables them to perform their own tests without using any outside laboratories.

The average factory has a separate room with testing equipment and one or more engineers running it. When you enter this room, take note of how well they have organized themselves. You may find anything. It could be a complete mess, or a well laid out testing room.

If the factory is producing more sophisticated products, they must have an adequate number of testing instruments. These should be in good working condition and must be calibrated on regular basis.

The room should be tidy and well organized. If tests are being conducted, you should find the test samples properly labeled and data sheets for the results nearby.

If the room has not been dusted for months and is cluttered with old test samples, you should assume that the factory does not take their QC duties very seriously.

Why Does the Factory Need a QC Department?

It's all about money. Every time goods have to be reworked or remade it costs the factory a substantial amount of money. Only constant monitoring of internal quality standards assures the factory that a major rework or remake will be avoided.

It is also necessary for obtaining ISO 9000 certification.

Separate QC Rooms for the Customers' Inspectors

It is common for customers to send their own inspectors or hire an outside inspection company to perform at least a random final inspection before the goods ship. The factory is expected to provide separate QC rooms for these inspectors. They must be separate from the production area and must have all the equipment for the inspectors to perform their work properly.

If the factory has a lot of orders in work at the same time it is very likely that you will meet several teams of inspectors in these QC rooms when you visit.

This is one of the times it might not be appropriate to take photos. The factory has an obligation to protect their customers' confidentiality. Sometimes the inspectors may be inspecting OEM products where the design belongs to the customer and cannot be disclosed to third parties.

If the factory does not have a separate QC room for customer inspectors, you have to refrain from working with them because they certainly do not meet the minimum requirements for quality control.

Corrective Action Plan

This is an expression that you hear quite often from certification organizations when a product is found to be out of compliance with existing directives.

A noncompliance from existing directives can give your company a big headache, if your supplier does not have the competence to take effective corrective actions.

A noncompliance detected by one of your country's regulatory agencies can result in a complete sales stop being ordered by authorities. Besides becoming headline news, in this worst-case scenario your customers will return all quantities of that specific product to your company and ask to be compensated.

Unfortunately, despite all your efforts to control the quality of your imported products, quality problems do occur. You should ask your supplier how they would execute a corrective action plan in case something goes wrong. Knowing your supplier's QC department can prove to you that they fully understand how to handle a corrective action plan and lets you know that they can protect your company's quality requirement even if all other precautions fail.

Chapter 9 - Visiting and Inspecting Their Subcontractors

As you visit each of the factory's various departments, you may learn a portion of the production is subcontracted to other factories. Unless special circumstances apply, the subcontractors are usually near by.

The factories find this to be a sensitive issue and may be reluctant to disclose it.

They may try and pretend the other factory belongs to them and is an extension of the production of the factory you are in. There is probably nothing further from the truth. Often, relatives of your factory's owner run the other factories and they are doing each other favors. It is very common in China.

The problem you are looking to uncover is if the subcontractor has a totally different quality standard (if they have one at all). That means whatever quality assurance the factory has given to you may be in contradiction or jeopardized through their cooperation with subcontractors.

The main reasons factories use subcontractors are:

1. To save money by squeezing the subcontractor to accept lower prices than they are capable of achieving themselves
2. To overcome a temporary production capacity shortage
3. To do a favor for a friend or relative that does not have enough orders to run their factory efficiently
4. Cover-up labor rights violations
5. Access to production equipment such as injection machines, spray-painting, and mold shops that they do not have

The problem is you have no idea how well or poorly the subcontractor's factory is managed without a visit. Your factory might not make this visit easy but you should insist.

It is possible your factory has several subcontractors. The more subcontractors, the more risk you will be taking that some of them have quality problems. It is therefore a very good idea that you insist on visiting them.

You cannot simply go wandering into the subcontractor's factory. You are going to need cooperation from your factory. Most likely, one of their staff will accompany you and your visit will probably be limited to the area of the subcontractor's factory that is performing work for your factory.

Be sure to apply the same stringent quality and performance requirements as you did to your own factory. It is the only way you can protect your own business interests and to assure the quality of your imports from China.

Chapter 10 - Negotiating Prices and Terms

What do price and terms of negotiations have to do with product quality? All price quotations in China are calculated on the individual BOM (Bill of Materials) list. This is a document used by the manufacturer or other businesses to authorize purchases to be made, or to request materials be pulled from inventory to fulfill a customer's order.

The BOM

Here is an example of a real BOM for a PCB (Printed Circuit Board) of an electronic item.

PCB Assembly

Part	Description	Vendor	Vendor Part#	Quantity	Price	Subtotal
1N4148	Diode	Mouser	78-1N4148	4	\$0.03	\$0.12
1N5231	Zener Diode, 5.1V	Mouser	78-1N5231B	1	\$0.04	\$0.04
1N5234	Zener Diode, 6.2V	Mouser	78-1N5234B	1	\$0.04	\$0.04
1N5819	Schottky Diode	Mouser	625-1N5819	1	\$0.14	\$0.14
2N3904	NPN General Purpose Amplifier	Mouser	625-2N3904	1	\$0.05	\$0.05
MAN6940	Seven Segment LED Display, CC	Mouser	512-MAN6940	9	\$1.84	\$16.56
Capacitor	Ceramic Capacitor, 0.1uF 50V	Mouser	21RZ310	12	\$0.08	\$0.96
Capacitor	Electrolytic Capacitor, 100uF 16V	Mouser	140-XRL16V100	1	\$0.06	\$0.06
Capacitor	Tantalum Capacitor, 10uF 16V	Mouser	80-T350E106K016	4	\$0.48	\$1.92
ECS-ZTT	20MHz Ceramic Resonator, with Caps	Mouser	520-ZTT2000MX	1	\$0.40	\$0.40
L78M05CP	Positive 5.0V Voltage Regulator	Mouser	512-LM78M05CT	1	\$0.36	\$0.36
LED	Red LED, 3mm (T1)	Mouser	606-4303F1	6	\$0.21	\$1.26
LM317T	1.2V to 37V Voltage Regulator	Mouser	512-LM317T	1	\$0.51	\$0.51
LM393AN	Low-Power Dual Voltage Comparator	Mouser	512-LM393AN	3	\$0.33	\$0.99
M74HC238B1R	3-to-8 Line Decoder	Mouser	511-M74HC238	1	\$0.50	\$0.50
M74HC4316B1R	Quad Bilateral Switch	Mouser	512-MM74HC4316N	2	\$0.50	\$1.00
M74HC573B1R	Octal Latch w/ 3-State Non-Inverting	Mouser	512-MM74HC573N	3	\$0.54	\$1.62
PIC16F876A	Flash 8-Bit CMOS Microcontroller	Mouser	579-PIC16F876A-I/SP	1	\$4.53	\$4.53
Resistor	1/4W 5% Resistor, 1K Ohm	Mouser	660-CF1/4L102J	6	\$0.05	\$0.30
Resistor	1/4W 5% Resistor, 10K Ohm	Mouser	660-CF1/4L103J	24	\$0.05	\$1.20
Resistor	1/4W 5% Resistor, 100K Ohm	Mouser	660-CF1/4L104J	2	\$0.05	\$0.10
Resistor	1/4W 5% Resistor, 1.5K Ohm	Mouser	660-CF1/4L152J	1	\$0.05	\$0.05
Resistor	1/4W 5% Resistor, 220 Ohm	Mouser	660-CF1/4L221J	1	\$0.05	\$0.05
Resistor	1/4W 5% Resistor, 56 Ohm	Mouser	660-CF1/4L560J	1	\$0.05	\$0.05
Res Iso DIP16	Resistor Array, 150 Ohm	Mouser	652-4116R-1-150	3	\$0.49	\$1.47
Switch	Mountain Tact Switch	Mouser	101-0621	23	\$0.30	\$6.90
UDN2983A	8 Channel Darlington Source Driver	Digikey	TD62783AP-ND	3	\$1.23	\$3.69
ULN2803A	8 Channel Darlington Sink Driver	Mouser	511-ULN2803A	3	\$0.44	\$1.32
PCB	DRO-350 Bare PCB	ShumaTech	#1	1	\$17.95	\$17.95

Total

\$64.14

Bills of materials are of course only one part of a product's cost. Other costs such as factory operations, labor, and administrative costs all go into the net cost of a product. Finally, the supplier adds their profit margin before quoting their selling price.

When you negotiate prices with your supplier, the BOM plays an essential role in your supplier's calculation. Because most of the other costs cannot be changed, it is actually the most important part. The factory cannot significantly reduce labor costs, otherwise workers will flee to other employers. The equipment the factory owns and the cost of energy for manufacturing are relatively set factory operational costs.

That leaves the BOM as the only negotiable cost. Just like most things in the world, this is accomplished by substituting cheaper materials from other vendors or outsourcing part of their production to subcontractors who are likely taking quality short cuts that your supplier does not.

You might point to the profit margin as a good place to trim the price. In reality, the profit margins are so thin that if they were further reduced it would not make much sense to even open the factory doors for business. Certainly, they do not want your purchase order if it means they will lose money on the deal.

I highlighted the total BOM cost in red color at the bottom of the form to draw your attention to it.

Both options that the factory has for reducing costs are bad for your quality requirements.

Sourcing cheaper components or materials usually means inferior parts or materials. Otherwise, the factory would already be using these less expensive components.

The Difference a Switch Can Make

I present to you a scenario of what could happen.

A factory receives a large order for 200K electric hair dryers. They face the situation where the customer's requested price is too low. They scrutinize the BOM and find an electrical switch purchased from a reputable switch maker can be substituted with a lower cost switch made in-house.

The savings is only US\$ 0.05 but when multiplied by the 200K dryers it becomes a US\$ 10,000 cost reduction.

Now for the real quality issue. The switch from the specialized switch maker was lab approved and had its own approval certificate. The in-house produced switch does not have its own certificate. Rather the supplier covers it with the exiting certificate for the hair dryer.

You may think that an approval is an approval and it is a good way to cut costs. However, if something happens later on and the hair dryer starts burning because of a faulty switch, lacking the proper approval will become a big deal.

A component with a stand alone approval is always an advantage, but it does cost more money.

You can now see the direct relationship between negotiating cost and the effect it can have on quality. The more you squeeze your supplier, the

more likely he will try and reduce the BOM cost by substituting good components or materials with inferior ones.

There is always the option of substituting A-grade components with B-grade or even C-grade ones. It is nearly impossible to discover these changes, but the result will be lower performing products. This is especially true of consumer electronics that need ICs, capacitors, and resistors in A-grade quality to perform properly.

If you have a good long-term relationship with a factory, you may have some reassurance that your factory will not use this cost cutting method, but there is no guarantee of it.

The other option of outsourcing part of the production to a subcontractor was sufficiently covered in the previous chapter.

Hidden Low Prices

Here is a little known fact that will probably surprise you. Insisting on longer than usual payment terms (L/C 90-120 days) will be reflected either in the product price or in lower quality.

The Chinese are usually good negotiators and know ways to persuade you to listen to their arguments. If they insist after several rounds of negotiations that they will lose money by meeting your target price, you should not continue pushing the issue or it will simply become hidden somewhere else.

Look for some form of compromise to avoid getting into trouble with substandard production quality that could cost you much more than accepting an FOB price a few cents higher .

Chapter 11 - Ordering Samples

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

Sample Preparation

Sample preparation, depending on 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 needed from the factory 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 supplier visited during the trip. You should have a good idea how each supplier will perform and how talented their management is.

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

When the Sample is Wrong

Imagine that you did not pay adequate attention to instructing the supplier 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 order in hopes that the supplier will get it right the second time. It is not a good

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

It is best to ask the supplier 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 with the proper quality and your QC people, or an authorized lab, has approved them. Anything else is a gamble and you do not 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.

Have Samples Properly 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 1,400 coffeemakers in a 40' container instead of only 1,200 pieces and it will certainly affect your selling price.

Samples are seldom free, which is understandable because they are handmade and very labor intensive. Even simple plastic products, the supplier has to follow your instructions 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 increases 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 into approving something that later proves to be less than perfect.

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 this 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 color to 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, suppliers may not keep their reference samples at all after completing production.

You now have the information to better understand why suppliers are reluctant to provide free samples to new customers. In many cases, you can convince the supplier 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 time and stay on schedule. Suppliers do not want to pay these charges and it is often difficult to convince them to do so. If they do, it is usually only after a successful business relationship has been established.

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

Chapter 12 - Having the Samples Evaluated

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 the information at once. If you sent daily reports, your job becomes even easier because your staff or colleagues have already processed most of the information during your trip.

Monitoring Progress

As you have learned already, timing is important. Therefore, your company must track the 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, therefore this job is often passed to someone at the lower end of the factory hierarchy.

The factory managers may have promised you delivery of the samples on 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 your orders, confirm orders with customers, or begin a sales promotion. In other words, you will lose turnover and the chance to sell products at a 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 a final decision about placing your orders, the way your samples are handled by the factory gives you another indication about 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 on how complex the products being imported are, you may decide to have 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 a thorough sample evaluation. Household items are easier to check than more sophisticated electrical home appliances or consumer electronic products. Always bear in mind that the submitted samples represent the standard that will be used during mass production.

In other words the samples reflect the quality that the factory expects to produce for you.

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 are changed during the evaluation process. 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 impressions of factory management during your visit
- Results 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 their 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, 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 13 - Battling Unscrupulous Business Practices

The world's largest and most powerful retailers have become the major driving force for quality and safety standards, particularly with foreign-sourced goods. I believe that the pressure major retailers place on suppliers to cut costs often result in **cut corners**. The end effect can be seriously harmful, or deadly products.

What Happens When Corners are Cut?

Each of the recent high-profile safety problems with Chinese imports to the United States were characterized by deceptive or dishonest business practices in an effort to cut costs. **Melamine**, which is toxic to animals, was blended into **pet food** to give artificially high protein readings.

Diethylene glycol, potentially lethal to humans, was substituted for its higher-cost cousin, glycerin, in the manufacture of **toothpaste**.

Tires were surreptitiously manufactured with either a minimal or **missing gum layer** needed to prevent catastrophic tread separation.

Toxic lead paint was substituted for the paint that was originally approved for popular **children's toys**, presumably to save money.

These are all cases where unscrupulous business practices have jeopardized the health and safety of the consumer.

You as the importer are responsible for taking all possible precautions to stop dangerous goods from entering your country. The best way to do this is by being more involved in running a successful quality control program.

Besides the other ways that I have already outlined for you, it is critical to consider pre-shipment inspections of all products.

Pre-Shipment Inspections

I have seen the pre-shipment inspection and testing processes first hand and know they can be effective methods for preventing unsafe or defective products from ever leaving the country of origin.

Unfortunately, the over zealous focus on a product's "speed-to-market" by some retailers can lead to short-circuiting the testing and inspection process. Testing and inspection companies are often rushed to complete their jobs resulting in comprehensive testing not always being completed.

Another failure, although it is not an expensive service compared with the other costs of bringing a product to market, are small importers and retailers that are reluctant to employ the inspection and testing processes at all.

I sincerely hope that your company is not considering forgoing the testing and inspection processes, as it will backfire and you may experience your first major quality claim sooner rather than later.

Chapter 14 - Choosing an Inspection Company

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

1. Let the manufacturer perform a self inspection
2. Have someone from your company perform the inspection
3. 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 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 only has 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 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 a few days later. Usually the factory has to pay the re-inspection charges after failing an original inspection due to it being the factory's 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, 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 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 again 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 testing
- 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 specifications will be detected and the 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. This 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 a 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 any further commitments.

However, I assume that you and/or your staff did a very good job by giving 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 their job. This is even more important when your product is 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 held responsible.

Here are the links to the major International Inspection Companies:

Asia Pacific Inspection Hong Kong	http://www.api-hk.com/
Bureau Veritas Hong Kong	http://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 of them have offices in other Chinese or Asian cities and will provide an excellent service to you.

Since the inspection results will be an important factor in defining the quality level of your products, you must instruct your inspection company about your requested AQL (Acceptable Quality Level) in advance.

What is an Acceptable Quality Level?

Chapter 15 - AQL: Acceptable Quality Level

The acceptable level is defined as the maximum percentage of defects (or the maximum number of defects per hundred units) that for the purpose of sampling inspection, can be considered satisfactory as a process average.

Acceptance sampling is actually a compromise between not doing any inspection at all and 100% inspection.

Increasing Levels of Inspection

The concept of AQL only applies when an acceptance-sampling scheme is used with rules for switching between normal, tightened, reduced inspection, and discontinuance of sampling inspection.

These rules are designed to “encourage” suppliers to have process averages consistently better than the AQL. If suppliers fail to do so, there is a high probability of being switched from **normal** inspection to **tightened** inspection where lot acceptance becomes more difficult.

Once on tightened inspection, unless corrective action is taken to improve product quality, it is very likely that the rule requiring discontinuance of sampling inspection will be invoked.

Although individual lots with quality equal to the AQL are likely to be accepted, the designation of an AQL does not suggest that it is necessarily of a desirable quality level. The AQL is a parameter of the sampling scheme and should not be confused with the process average that describes the operating level of a **manufacturing process**. It is expected that the product defect rate will be less than the AQL to avoid having an excessive number of rejected lots.

Defects and Defectives

A defect is any single non-conformance to specified requirements that occurs in a single unit of the product. A defective is a unit of product that contains one or more defects. Failure to meet requirements with respect to quality characteristics are usually described in terms of defects or defectives.

Defects detected during visual inspection are usually classified within 3 categories which are:

Critical Defect

A critical defect, based on judgment and experience, indicates it is likely to:

- a) Result in hazardous or unsafe conditions for individuals using, maintaining, or depending on the products
- b) Prevent performance of the tactical function of a major end item. A critical defective is a unit of product that contains one or more critical defects.

A critical defect automatically leads to the unit being rejected by the inspector.

Major Defect

A major defect is one, other than being critical, is likely to result in failure, or to materially reduce the usability of the unit of product for its intended purpose. A major defective is a unit of product that contains one or more major defects.

Minor Defect

A minor defect is one that is not likely to reduce materially the usability of the unit of product for its intended purpose, or is a departure from

established standards having little bearing on the effective use or operation of the unit of product. A minor defective is a unit of product that contains one or more defects.

Inspection Levels

The inspection level determines the relationship between the batch size and sample size.

There are **3 general inspection levels** which are commonly used for inspections:

- **Level II** is designated as normal
- **Level I** requires about half the amount of inspection as level II, and is used when reduced sampling costs are required and a lower level of scrutiny can be tolerated.
- **Level III** requires about twice the amount of inspection as level II, and is used when more scrutiny is needed.

Batch/Lot

A batch is a collection of products or components of the same type and size that must meet the same specification requirements and were all produced within a related period of time. This is also known as a production run. As an example, let's take a product that is being manufactured in five different colors. A batch of 1,000 red parts are produced by the injection molding machine and then moved to the next step in the manufacturing process. This is one batch. Next, the injection molding machine is setup to produce 1,000 blue parts of the same component. This is a separate batch. And so on.

From each batch a predetermined number of samples will be drawn and inspected for conformance to the specified requirements.

The batch size is the number of items in a lot or a batch. The words batch and lot are interchangeable.

Example of a Typical Inspection

This example illustrates the procedures for an AQL sampling inspection plan.

Product: FM/AM Auto Scan Radio

Batch size = 8,000 pieces

Method: Level **II**

Major 2.5

Minor 4.0

Sample size = 200 pieces

Acceptance numbers = 10 pieces or less with a **Major defect** and/or 14 pieces or less with a **Minor defect**.

That means if either the number of **Major** defects exceeds 10 pieces or the **Minor** defects exceeds 14 pieces or both occurs the entire batch is determined to have "Failed".

One more important point that is often overlooked by importers is the fact that the quality level of merchandise at the final destination is sometimes lower than the per-shipment results. Product deterioration can occur from transport, handling, change in environment, and/or reliability problems. You should take this into consideration when deciding AQL levels.

Chapter 16 - How Will Your Inspection Company Perform the Inspection?

After they receive your sample(s) and your clearly detailed instructions, the inspection company will prepare a checklist that you will have to verify. At this stage, you can still make corrections.

Again the Importance of Your Samples

The inspection company will use the sample(s) as a reference. Again, you should realize how important it was to give clear instructions to the factory for the preparation of the samples.

It is never a good idea to ask to have the inspection performed without a sample being available for comparison. If you do this, do not be surprised if the inspector's findings do not match your expectations. Once manufacturing is complete, the factory's single goal is to ship out the product and collect your money as soon as possible. Without a sample to rely on, the factory can easily confuse the inspector to hurry the process along.

Inspections Have Become More Detailed

I would like to give you an idea of the extent importers have changed the requirements given to inspection companies over 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 is completely burned and the bottom is still white.

Similarly, 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 probably 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 their 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.

Setting Up The Inspection

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**

<http://www.stc-group.org/download/id01%20rev5a1.pdf>

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 to 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 any 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". Unfortunately however, I can tell you that 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 you can do to protect your interests. As mentioned previously, 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 aid in convincing you. It is up to you to accept it but please be aware that the labor cost in your home country are 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 costs.

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 with 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 shipment schedule, by not leaving 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 have created the problem through their lacking performance.

There could be many disputes about the reasons for rejection, if you did not provide clear information about your 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 leave you with 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. Evidently, the Inspection certificate is only issued when the order has a "Passed" result, which could mean after a successful re-work.

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

Chapter 17 - 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 well as anywhere else, people are highly regarded when they take action. If you visit the same factory five times without placing an 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 you double check the earliest possible delivery date. Circumstances change and your 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 only be confirmed after all prior requested materials have been received.

This will more than 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 about how factories plan their customers' production. Factories have a limited number of production lines that are allocated 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 their 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 automatically be allocated a later production slot, and there is nothing you can do about it.

Finalizing the P/O

Chinese companies are not appreciative when a 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 clause
- 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, do not overdo it. I have seen P/Os that 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. For instance, there are 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 that is so thin that you could easily punch a hole through with your fist. This quality is unacceptable as 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 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. 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 have even 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 use an express vessel at their own 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 that 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 in Chapter 16.
10. Information that mass production must comply with the submitted and approved samples - As mentioned several times, 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.

Since your P/O clearly defines the negotiated and agreed upon quality standard for your factory's production, it is an integral part of your company's Quality Management System.

Chapter 18 - 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 19 - 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 the same products in 5-6 different factories and expected 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 do not take well to this.

How does that happen? The factory outsources the package preparation and if you have 5-6 different factories you may also have the same number of different printing companies. Of course, the printing companies try very hard to follow your request 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 company 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 with their raw material suppliers and printing companies.

About Paper Quality

Another thing to make sure about is checking the paper and corrugated cardboard quality that 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. Metals 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 20 - Release for Mass Printing

After everything is checked and finally found to be 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 21 - 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 a 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 that 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 22 - 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 as 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 to go into the details, but you know if some preparations were not completed on time the whole project cannot start smoothly.

Chapter 23 - 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 it 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 naive 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 deliveries
- Legal requirements (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.

Changes in the North

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. This opportunity usually only comes once a year. Factories close for at least a whole 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 24 - 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 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 the 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 select 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 16 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 jobs.

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 there is 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 his 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 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 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 25 - 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 the 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 do not 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 26 - 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 have 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 to deliver the goods to your customers

Chapter 27 - What Happens When QC finds Defects During The Incoming Inspection?

Your QC department must file an incoming inspection report with a detailed defect description. Usually it will contain various photos that clearly show the defects.

It is obvious that these goods cannot be delivered to your customers because it would harm the reputation of your company.

Your company must inform both the inspection company and supplier in China immediately because they may have failed their responsibility to prevent the shipment of faulty goods. As mentioned, the defect(s) may not have been found during the inspection because it occurred during transportation. If that is not the case and the inspection company overlooked the defect, you may file a claim against them for compensation.

However, this does not solve your immediate problem, which is delivering goods to your customers. Filing a compensation claim against the inspection company will only help reduce the damages at a later stage.

Therefore, you must begin negotiating with your factory about how to solve the problem and usually there is a lot of money at stake. You can expect your supplier to be reluctant about accepting your customer claim without clear evidence that the defect exists and they were the cause of it. In addition to your QC department submitting their report and evidence, it might be a good idea to have an outside lab collaborate your QC department's findings and also submit that to the supplier.

It now becomes important what agreements you have with your supplier about quality problems. If you have been doing business with them for awhile, they may propose sorting out the defective products by checking piece by piece. This would allow you to distribute the acceptable products to your customers.

If however the complete lot is defective, it may be a strong indication that your inspection company did not perform their work properly, you may have no other choice than to return the goods to your supplier for exchange or rework. It would be better if you can exchange the goods for a completely new lot. The freight charges (both ways) should be on your supplier's account and of course the cost for the rework (if you accepted this as a solution) as well.

The great disadvantage to this solution is that it will take a lot of time. And time is something you do not have when your customers are waiting for their goods. You may want to consider one more option, which is reworking the goods in your country. The labor costs in your home country maybe much higher than the labor costs in China, but no sea freight charges will apply and you will probably save precious time and can supply your products to your waiting customers much earlier.

The factory may also be willing to accept the higher labor costs because they may face problems returning the goods through Chinese customs. They do not allow rejected products to enter China.

If there is no other way than to return the goods to your supplier for exchange or rework, you need to receive a written, stamped document from a factory manager/owner that spells out exactly what you have agreed to. Sending goods back without your supplier's authorization

would be the same as playing with fire. Somebody will get burned but it will not be the factory.

Also, it maybe a good idea to return all defective goods from the same factory (different goods from previous purchases) until a shipping container is filled. This saves on freight charges and leverages your bargaining power with the supplier.

Chapter 28 - What Options do you have When Your Customers Complain About Quality Problems?

Since you, as the importer, are responsible for the quality of the imported goods, your first priority must be to satisfy your customers. You can always find another factory in China but finding new customers in your home country will be much more difficult.

Your quality control department must analyze all defects and input all data in a quality performance file for each of your suppliers. During the next meeting with your supplier, you can ask for compensation but will have to provide evidence to them.

In my eBook [How To Settle Factory Claims In China More Successfully](#) I provide more inside information on this subject.

You should know that there are limits to what your supplier is willing to accept and even the best long-term relationship will not help in some cases. **Compromise** is the magic word if you are looking for a solution that can be accepted by both sides.

If you have already negotiated a percentage of defects allowance with your factory (typical for electrical household appliances is 2% and for consumer electronics products it is 4-5%) you have a much stronger bargaining position if you can prove to your supplier that they did not keep their part of the agreement.

Chapter 29 - Epilog

I sincerely hope that my eBook will help you **Assure Quality Imports From China** more successfully and gives you a better understanding why quality control has to be a major part of your import activities.

During the research for my seven eBooks I came to realize that most other sources that are available to importers mainly focus on the easier parts of the import business without providing importers with sufficient advice about how to maintain a predefined quality standard.

This eBook gives you a guideline about how to avoid substandard factories in China and how to build good relationships with trusted manufacturers instead.

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

Klaus-Dieter Hanke