

# How To

## Make Business Negotiations In China More Successful

Volume VII



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## **Chapter 1 - Rapid Change in China Includes the Way Business Negotiations are Conducted**

When you enter into business negotiations with your Chinese business partners, please keep in mind that they are indeed your partners. Any tendency towards superiority that you may have is totally out of place. Many times, I have seen Westerners and other overseas customers tend to look down on their Chinese counterparts because they may not be fluent in English or do not speak English at all.

This unacceptable and unprofessional behavior does not do justice to really hard working people who do not enjoy the luxury of a cozy office and working environment that Westerners are accustomed to.

National pride and feelings can play a role in the business relationship for both the Chinese and foreigners. The Chinese have the oldest surviving civilization in the world with historical records dating back more than 4,000 years. Chinese civilization has contributed many inventions and discoveries to Western civilization. The Chinese take great pride in their contributions to mankind. Likewise, Westerners take pride in their country's contributions and prosperity. This does not make either business partner superior and if left unchecked it will only hinder business negotiations.

### **They May Understand English**

It may surprise you to learn how many of your Chinese business partners can actually follow an English conversation quite well but choose not let you know it.

This gives them the big advantage of thinking about an appropriate response during the time you're question or comment is being interpreted.



It is also often overlooked that some staff capable of understanding your mother tongue quite well accompany Chinese company owners. This especially applies to German, Japanese, French, and Spanish along with English. They may not inform you about their skill but will inform the manager or owner, in one way or another, what you and a colleague were discussing among yourselves.

The fact is you should never discuss proprietary information in any language during meetings. You could easily give away guarded information such as the highest price you are willing to pay for goods.

### **Appearances May Not Agree with Reality**

When in China you will also meet with business partners whose appearance and behavior may not be compatible with western expectations. Bear in mind that these people are usually in control of large and sometimes very large factories and earn much more money than you will ever dream of.

Therefore, please be careful not to confuse appearance with real power. The gentleman you are reluctant to talk with may be the only one who can make decisions.

China is changing rapidly and so is the way business negotiations are conducted. I have seen factory owners unable to speak English that were in control of only a small factory a few years ago. Today, they still cannot speak English but have grown their enterprise into a workforce of tens of thousands of workers with as many as seven large factories, all within just 10 years or so. These people have become very powerful indeed.



Another fact seldom known by Westerners is that factory owners talk to each other even though they are competitors. They exchange information to a certain extent as long as it fits their strategy. Therefore, it can happen that the confidential information given to one Chinese factory is already known by your next contact before you have even reached his factory during your business trip.

### **Meeting Notes**

You may be confused if a Chinese manager does not take any notes during a meeting. This may even lead you to believe he or she does not take your business relationship seriously. My observation is that the Chinese people have a much better memory than Westerners because their brain has been trained since childhood to keep the large number of Chinese characters in their memory. So do not worry, your counterpart will not forget the content of your discussions because he has likely memorized it.

It is also true nowadays that more and more Chinese managers are accompanied by senior staff that use their notebook computer to record important meeting points. This is especially true during Trade Fairs when factory managers need to maintain communication with their head office during their absence.

Many buyers or importers are also relying heavily on their notebook computers. If you are still taking hand written notes the old-fashioned way, please give it another thought. I strongly suggest you take a notebook computer with you and use it during your meetings. It is so much more convenient and you have all the necessary information on hand without the need to carry heavy box files with you.

This eBook will teach you the details of Chinese business etiquette and strategies of how to achieve your negotiation goals without the loss of face for either side.

## **Chapter 2 - Why are Regular Business Trips to China Necessary?**

Regular business trips to China are essential to maintaining a good relationship with existing suppliers and building new ones. The Chinese culture favors frequent personal contact with their overseas trading partners and meetings at their office or factory is one preferred method. Therefore, you are best advised to prepare yourself in order to make a favorable showing. Poor preparations can leave a negative impression about how your company conducts business.

That is particularly true if you consider how far away you are from your home office. If you forgot something important for your China meetings it can render your whole trip worthless. Considering the amount of money and time you have to invest getting there, you should agree that this is not an acceptable option.

I have made these trips many times and have learned considerably from experience. My intention is to share all of the relevant details with you so you can avoid making mistakes I have learned from my more than 25 years career.

### **Information Needed by Small to Medium Sized Businesses**

This eBook assumes your company to be a small or medium size importer with an established customer base in your home country or a company interested in starting their own importing business but lacking the necessary experience to do so.

Thorough trip preparations will make your business trip to China more successful and will help reduce your travel expenses. This eBook provides you with the knowledge and tips to achieve those objectives.

Business trips to China and the associated negotiations with your Chinese business partners will have different goals and therefore need different types of preparation.

I will focus on the following 4 main goals that typical business travelers to China have on their agenda:

### **Goal 1**

#### **Visiting a new factory for the first detailed evaluation**

These could be suppliers or factories you have previously met during one of the Chinese Trade Fairs or suppliers/factories and have been in contact with from your home country. Naturally, you want to spend most of your time evaluating these suppliers/factories to determine if they can comply with your requirements for your imported goods.

### **Goal 2**

#### **Visiting a factory to discuss a new large volume project**

The goal of this visit assumes a certain familiarity with the factory. Without knowledge of the factory, you would not want to place a large volume order with all the inherent risks involved. Preparations will mostly focus on the details of your project.

It is not advisable to entrust a new supplier/factory with an order without first conducting an evaluation, either yourself or by an **Importing Consultant** like our company:

<http://www.webmediabiz.com/consulting.php> If you want to avoid unpleasant surprises, do not blindly place an order.

### **Goal 3**

#### **Visiting a factory where you are having major problems with the quality and/or delivery schedule**

The first thing you must do is find out what caused the problems. The reasons provided by the supplier/factory may not be the whole reason and possibly even involves a cover-up. These problems will cost you money if they are not solved quickly. You will need all of your investigative skills to find the root cause. Here it is a good idea to bring your own interpreter because you may need to talk to the supplier's or factory's engineers directly to obtain important information and directly advise the people involved.

### **Goal 4**

#### **Detailed negotiates of conditions and prices for new large volume orders**

Similar to goal 2, here the preparations will mostly focus on the details of your project. Again, you have already visited this supplier/factory, performed a thorough evaluation, and concluded they have the background, experience, and capability to deliver what you want.

The difference with this visit is that you are now prepared to place the order and want to take advantage of your last opportunity to negotiate the price and terms. When you have large volume orders in your hand, you have stronger bargaining power towards your supplier/factory because larger orders also allow the suppliers/factories to save costs by buying raw material and components at special bulk prices.

Nowadays, I would say it is the only chance to negotiate better conditions and prices because increasing costs are forcing the factories to order raw material and components only after they have received your L/C. If it is really a larger than average volume order, your supplier/factory will get

better prices and conditions and they may be able to pass some of the savings along to you.

We will keep these four goals in mind as we progress through the rest of the book.

## **Chapter 3 - Be Absolutely Prepared for Your Negotiations**

As mentioned in the previous chapter, you are far from home and cannot just run across town to fetch a missing document or your contract if you forgot to bring it along. Of course, you may be able to ask your staff at home to send you the missing information by e-mail, but you may already have lost your face with your Chinese counterparts because you were ill prepared for the meeting.

Therefore, first make a plan about what subjects must be discussed with each of the companies you are going to visit. After that has been established, you have to prepare a checklist of the documents needed for each meeting. If you want to conduct successful negotiations with favorable results for your company, you had better have everything on hand instead of guessing what else might be needed.

I suggest using a notebook computer during your negotiations. Notebook computers can store all of your previous communication with your supplier along with copies of any new documents that might be needed.

### **Paper Documents**

However, during meetings with your suppliers you still may need a paper version of the documents to provide to the participants. It is usually not very convenient to present documents on your computer screen when several people attend your meeting. The completely paperless office is still a future illusion so you need to have hardcopies of the most important documents ready for your negotiations. If more copies are needed, your supplier can make them for you.



## Help Your Chinese Partner Prepare

The meeting may only last 2-3 hours total but your preparations will probably need much more time if you want to be successful.

It is also common for your Chinese business partner to request a summary of the intended discussion points in advance. This makes perfectly good sense so they can also prepare for the meeting and can ask for additional information if something seems unclear.

Chinese senior managers seriously dislike being confronted with details they were not aware of and for which they did not prepare themselves. If you wait until the meeting before disclosing key information, the Chinese decision maker will **lose his face**. The result will be negotiations that go nowhere despite your perfect preparations.

Unfortunately, the preparations were less than perfect if you fail to cover the Chinese side of the equation. Not helping the Chinese prepare for the meeting is a formula for failure.

Chapter 15 covers common discussion points for Chinese business negotiations. That is the least you must be prepared for but each case may have different subjects and may need different preparations.

## **Chapter 4 - Using a Local Professional Interpreter for Your Negotiations**

It is a good idea to bring your own interpreter along. An independent interpreter can be key to successful communications.

This is especially true if you are trying to solve existing problems or have another reason to talk directly to the factory's engineers. You may decide to bypass the factory's English speaking sales manager because he may not be able to translate your requests adequately or may be unwilling to do so in order to protect his own interests.

It will also give your negotiations more weight if you can talk directly to the decision maker who could be the factory owner or one of the shareholders with help from an independent interpreter.

The interpreter should be a neutral person without any direct interest in your business activities.

### **Tips When Working with a Chinese Interpreter**

Here are some helpful tips that you should observe when working with a Chinese interpreter:

- Familiarity with the subject matter is highly important. Try and make sure that your interpreter is familiar and comfortable with the topic or subject being covered. Always ensure that your interpreter has a copy of any planned speech or talk you will be delivering. Every company and industry has its own specialized language, terms, and even jargon. Interpreters may not necessarily be familiar with this before working with your company. Make sure that interpreters are given a selection of any printed materials in both languages that they can study prior to the event. Technical materials can be especially important. Inform them about any

complicated words or terminology and inquire how familiar they are with the meanings. Prepare them to deal with any tricky subjects or issues so that they can deliver with ease.

- Time management is crucial so plan your time carefully. Remember the conversation will be twice as long as a single language conversation. A forty minute speaking slot with consecutive interpretation leaves time for a twenty-minute speech. A Twenty minute Q&A with consecutive interpretation is really a ten-minute Q&A. And so on.
- Never do a rush job; always speak slowly and clearly. If you are stressed or rushing it will affect the quality of the translation.
- The interpreter is there to simply translate what is being said and must never attempt to translate emotion. If the speaker is happy or annoyed for example, then this will be apparent through his/her body language and tone of voice.
- An interpreter must never undermine your position by answering questions on your behalf without consulting you. Even if the response is very simple or predictable, they must always convey the question to you first.
- Always talk to the host, never directly to the interpreter.
- Don't be surprised if the interpretation isn't totally exact. Interpretation is not an exact science, especially as it is a "live" process. An interpreter at an event, who can see facial expressions and sense the atmosphere of an event, might translate differently than someone working from a written transcript of an event. Fast speakers may also find that details get filtered out in favor of a few key points. Although interpretation is inexact, you do have the right to demand accuracy. Don't work with an interpreter who is error prone or introduces their own bias or ideas into the interpretation. Also, pay close attention to see what you can do to make the

interpretation work successful. If the interpreter seems stuck on a particular point, ask for clarification and try restating the information in a different way. Often an example can help clarify a point.

- Never assume the audience doesn't speak your language. Just because you are working with an interpreter don't assume no one in the audience speaks English, Spanish, Japanese, and German etc. Many Chinese people, especially in professional circles, understand English or one of the other major languages. They may understand it much better than they can speak it. Even when working with an interpreter, assume that the audience understands you.

Here are two links to Chinese interpreter services. You can contact them to find out which of them is most suitable for your specific requirements.

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

<http://www.interpreter.chn.biz/>

## Chapter 5 - Hire a Local China Consultant with Connections

Besides employing an interpreter, it is often a good idea to bring along a knowledgeable consultant from China for your negotiations. Consulting with a trusted professional can be an invaluable service providing optimal negotiation results.

The ideal solution could be to obtain the help of a local consultant **familiar with your kind of business**. It gives your company the necessary insider knowledge to turn the negotiations with your factory in your favor.

Consultants have many years of experience dealing with Chinese companies and negotiating claims is part of them.

For instance, our company provides negotiation consulting services based on more than 20 years of experience in China. We are pioneers when it comes to importing from China. There is not much what we haven't seen or done already.

It is of utmost importance that you only employ a neutral outside the company that has no relationship with your factory whatsoever.

When a consulting company turns the negotiations in your favor and you succeed with most of your demands, the money for a consultant has been wisely spent.

## **Chapter 6 - Meeting Punctuality Counts With Your Suppliers**

Contrary to what you may have heard from hearsay, suppliers in Asia are relatively punctual considering the long distances they sometimes have to cover to meet you. Therefore, you are also expected to be punctual for your meetings. It is a matter of courtesy to inform a waiting supplier of any delay that may be caused by something outside of your control.

Culture plays a role in what is accepted as good manners. There are Western cultures where it is polite to arrive late at an engagement. However, in Chinese culture, punctuality is synonymous with good manners and respect for the other party. In fact, for the Chinese, it is normal to arrive slightly in advance in many situations.

The higher the status of the person involved in the meeting, the greater the importance attributed to punctuality. Guests are usually greeted upon arrival by a company representative and escorted to the meeting room and hosts are expected to be in place before guests arrive.

## **Chapter 7 - With Whom Should You Negotiate on Your Supplier's Side?**

Talking to the right or wrong person in your supplier's hierarchy can be the key for successful or failed negotiations.

Typically your negotiations begin with the sales manager. If technical details need to be worked out the production manager and/or one of the senior engineers will be involved.

### **Meeting with Decision Makers**

These managers however cannot make final decisions without consulting with senior management, when the meeting carries a significant importance. Typically these are meetings where the outcome involves a lot of money. It could be a negotiation to resolve a settlement claim or it might involve a large volume purchase order. I can only advise you to go right to the top decision maker. That means you must talk to the company owner. This can be several people if it is a shareholder owned company. You may need to meet with the chairman of the board, the chief executive, or the president.

It may prove difficult to directly get in touch with the supplier's decision maker because they are usually shielded by their staff. Knowing the background of your supplier is essential to pinpointing the right person if your supplier has thousands of employees.

It may pay off now if you have visited that supplier before and already know the company hierarchy.

I have discovered on various occasions that decision makers in China go into hiding and cannot be reached by your company when there is a



major settlement claim. This might seem strange, but if you do not nail down an appointment with your supplier's decision maker, you may end up talking to the people that shield him and wasting more time and money.

### **Have Current Contact Information On Hand**

It should not be this way, but believe me, even as a permanent Hong Kong resident it has happened to me. I have arrived at a supplier's office address only to find out they had moved to a new location several weeks ago. **Make sure that you have the updated address from your supplier.**

Sometimes, managers may be using up a supply of old business cards and forget to let customers know about their new office location. Maybe it has been a while since you last talked to them. When you call or email to arrange a meeting, they have forgotten you do not know that they moved. This is especially true in cities like Hong Kong or Shanghai where offices frequently move. You need to make sure that you have up to date addresses in your records.

Even more important are the correct **cell phone numbers** because this is your primary way of contacting the person while you are traveling. In large cities, the traffic conditions can at times be terrible and you will want to inform your business partner if you will not make it on time for an appointment.

### **A Few Good Travel Tips**

A sketch with a Chinese character description of the supplier's location sometimes works wonders helping your taxi driver find your supplier's location. You might be able to draw the sketch and have someone at your hotel add the Chinese characters or have the factory email something similar to you.

If your taxi driver still has trouble finding the supplier's location, you can call the supplier on your cell phone and ask him to give directions to the taxi driver in the local language. This usually does the trick.

You can always ask your supplier to pick you up from the hotel to avoid this problem but it can be inconvenient and time consuming to wait for the factory to send a car. Most Chinese factories are usually glad to send a company car to pick you up. However, companies in Hong Kong or Shanghai may not be willing to provide this service.

When visiting suppliers you will want to make plans that best utilize the available time. This is even necessary if you are visiting suppliers in one of the large Chinese cities like Hong Kong, Shenzhen, Guangzhou, and Shanghai. These cities are so vast that you need a realistic plan if are going to accomplish much.

### **Getting Around Hong Kong**

Most visitors underestimate some time factors that are actually out of their control. I will give you examples for meetings held in Hong Kong.

Hong Kong is a city with a population of approximately 7 million people with an excellent public transportation system. Using the subway (MTR) is advisable and it should not take long for you to become a little bit familiar with it. If you know the closest MTR station to your destination, you still need to know which exit to take out of the station and then the street leading to your supplier's office.

The public yellow or green minibuses are best left to the locals. It is usually too complicated for visitors to become reasonably acquainted with them during a short stay.

Once you arrive at your supplier's office building, you need to get to the floor where your supplier's office is located. Hong Kong is a modern city with many skyscrapers. Even after you locate the floor, it can be a small challenge finding their office. There can be as many as 20 offices on the same floor.

### **The Trouble at Lunch Time**

It can and does take considerable time to find the suppliers' offices. Special precautions are needed if you have a 2:00 PM meeting in Hong Kong. Plan to arrive at least 15-20 minutes early because all of the elevators will be very crowded. At 2:00PM the general lunch hour ends and everybody is trying to rush back to their offices at the last moment. Get there 15 minutes early and miss the rush.

Knowing these details will help you to make the right plans. For instance, I prefer to arrange my first appointment after lunch at 2:30PM instead of 2:00PM when I am in Hong Kong.

The Chinese love getting out of the office during lunch and really do not want to accept any meetings during that time. They are usually polite enough not to let you know this, but I suggest not trying to schedule meetings between 1:00PM and 2:00PM.

Offices are now staggering work hours, similar to Western societies. Part of the reason is to reduce traffic congestion. This can make it impractical to schedule an appointment before 10:00AM. Unfortunately, any earlier and some of the people you want to attend will not have arrived at work yet.

Lunch hours can start as early as 12:00PM or 12:30PM but that is an exception. As long as you honor the main lunch period between 1:00-2:00PM everything will be fine.

Keep in mind that taxis will also be difficult to catch during these times because some of the returning staff will also use taxis.

### **Going the Distance in Hong Kong**

If you have a meeting in the **Tsuen Wan** district and your next meeting is supposed to be in **Chai Wan**, it will take you approximately one hour by taxi to get there. The distances in Hong Kong are considerable and take time to cover, even with their excellent transportation system.

You need to consult a street map in order to avoid scheduling meetings with suppliers that are far apart from each other. My suggestion is that you contact the suppliers you will be meeting with and ask them how much time you may need to get from your hotel to their place (after you have booked it). Next, check with the second supplier that you will meet with to learn how much time you will need to reach them from your first supplier's office.

If you have meetings with suppliers in the industrial areas of **Shatin**, **Fotan**, **Kwai Chung**, etc., you will need more time to reach your destination from downtown. On your return trip it may not be easy to find a taxi.

Sometimes it does not make much sense to use a taxi in certain areas. For instance in **Kwun Tong**. Most suppliers' offices can be reached within a short walking distance and sometimes taxi drivers will even refuse to drive you if your next meeting is just a few blocks away.

I think you get the point already. Knowing the exact locations of your suppliers' offices allows you to tailor your meeting schedule without including unnecessary taxi rides or walking. Besides the time savings, it will also help to save substantial travel costs.

The same applies to the larger cities in China. However, you have the added complication of communicating with your taxi driver. This will be very difficult if you do not have the address of your supplier's office in Chinese with you. Your hotel can help you with that and also your supplier can send you a copy of his business card in advance. That will do the trick.

Considering everything that is involved, you may not be able to make more than two meetings before noon and another two in the afternoon.

From chapter 6 you know that visitors are expected to be punctual for business meetings and if you heed my advice, you should be able to reach all your business meetings on time.

## **Chapter 8 - Appropriate Dress**

Visiting a supplier at his office is not exactly the same as attending a high fashion business meeting, but there are dress code standards that should be observed.

### **Jacket But No Tie**

It is not appropriate to wear your favorite T-shirt from your last holiday in Thailand when you visit your suppliers or any factory.

Chinese people are not particularly picky when it comes to clothing, but keep in mind the impression you will make of yourself and your company. Appropriate dressing is a business suit or a light jacket with a collared shirt.

You may even appreciate wearing a jacket because most Chinese consider Westerners to be cold loving and often set the air-conditioning to a lower temperature to please them. Siberia may be a much warmer place compared to that.

### **Jacket and Tie**

It is not necessary to wear a necktie when attending the Trade Fair, but when visiting your suppliers' offices and if you are invited to a business lunch (mostly linked together) or more likely a business dinner, a necktie is appropriate.

If your business trip takes place during the Trade Fair season (April & October), which is also the warm season, you will want to wear light weight clothing, especially when you are outside of the air-conditioned hotel rooms, suppliers' showrooms, and exhibition centers.

In Chinese culture, conservative suits and ties in subdued colors are the norm. Bright colors of any kind are considered inappropriate. Women should wear conservative suits or dresses; a blouse or any other kind of top should have a high neckline. Stick with subdued, neutral, colors such as beige and brown.



## Chapter 9 - The Importance of Business Cards

They are lightweight and can be used long after your visit to China, so bring considerably more than you would normally think is necessary. In China, everybody expects you to give them at least one business card and if you are meeting with several people, you may handout a dozen or more at a time.

Sometimes manufacturers are reluctant to provide detailed information to somebody who “is naked”, meaning “being without business cards”.

If you miscalculate and run out of them, you can use one of the print shops nearby to print them for you within a couple of hours.

The Chinese perform a small ceremony when exchanging business cards. Make sure to hand over and receive business cards in the typical Chinese way, which is with both hands.

If you are sitting around the table, it is a good idea **not** to put their cards in one of your suit pockets after they are handed to you. This is extremely impolite and indicates that you do not care for the person that passed you his/her business card. The proper way is to study them first (pretending to do so is OK) and place them in hierarchical order on the table in front of you.

How do you know who is the highest ranking person at the meeting? It is usually the first person introduced to you and this person is not necessarily able to speak English. It is proper to exchange business cards with that person first. In Chinese business culture, this gives him the face he deserves. This applies even if the sales manager will be the person you are in constant contact with following the visit.

It is a good practice to write a person's title on their business card if it is not preprinted on the card. Otherwise, you may find it impossible to figure out later. A person's title printed on the business card is sometimes a little bit vague and you should ask to get it right. Also, you will not be able to distinguish whether it is a male or female name. Make a note of this for future reference. It might surprise you to learn even the Chinese will not immediately know, whether the name on the business card is from a woman or a man. There are so many different areas in China with special local names and Chinese from other provinces may not be able to differentiate gender by name. Therefore, add Mr. or Mrs. on the business card to make sure that it will not be forgotten.

You should also know that a person with the name **YUEN** Kai Shun is not Mr. Shun but is **Mr. Yuen** because the family name is always the first of the traditional three Chinese names shown on any business card.

However, in Hong Kong people have adjusted after a 150 years of colonial rule by England. There they mostly mention their Christian name first and then their Chinese family names, for instance **Peter Kwok**.

## **Chapter 10 - Essential Tools for Your Negotiations**

### **Cell Phones**

I suggest you check with your cell phone provider at home to see if your phone will work in Hong Kong and China. Give your cell phone number to any business partner that is traveling with you and get theirs in return. Do the same with any suppliers that you prearranged to meet. It may be very difficult to locate somebody at the factory without going through their operator, but using their cell phone number will usually do the trick.

The call charges to Mainland China are very high and many visitors buy a SIM card from a China Mobile retail outlet upon arrival to reduce phone costs.

The call charges in Hong Kong are cheaper but you can also buy a SIM card from one of the many local service providers.

The obvious disadvantage is that your Chinese business partners do not have the new number yet and cannot reach you after you have changed a SIM card.

Depending on how many calls you have to make, it might be better to keep the SIM card from your home country or do what many local people do, use a second cell phone with your Hong Kong or China SIM card. That way the staff at your office and suppliers can reach you at any time.

### **You Will Need a Digital Camera**

A digital camera is one of the most important tools you will need during your visit. You will have many opportunities to shoot photos of products, production operations, and quality control operations. These will include close-up photos of details that cannot be seen in a catalog.

During your guided tour of the factory premises many photos can be taken. Important examples include the working conditions on the conveyor belt and any special equipment you are not familiar with or that differs from other factories.

You can and should take photos of any unique new products that some of the suppliers will show to you in the mock-up stage. It may only be a mock-up but in just a few weeks the tooling will be complete and plastic injection can start. You should always be on the lookout for new products that interest your homeland customers. Feeding them this important information can lead to a big sale.

Another way a digital camera comes in handy: Chinese people love to take photos and love if photos are taken of them alone or with their customers. Also, having photos of the people you met during the factory visit helps you remember who they are and what their title is. People always like being remembered when meeting a second time.

Do not forget to bring a spare battery with you because you probably will not have a chance to recharge the battery while traveling between factories. You may also need another memory card if you do not already have one of those 2-5 GB cards in your digital camera. Another way is to upload your photos to your notebook computer on a daily basis. In that case one memory card will probably be sufficient.

### **You Need a Notebook Computer**

If you have a notebook computer bring it to every meeting. If you do not have one consider purchasing one. That purchase will be worth the money you spend for it. Your notebook provides you with the necessary information for your business negotiations, plus it allows you to show

background information about your company, and the packaging concept for your products. This is all very helpful to factory management.

Of course, you can input vital information during your discussions without the need to take hand written notes. That is made easier if you have an associate along, but with a bit of practice you can manage it alone. It is also so much more convenient than using a paper notebook. I have experienced and appreciate the changes that have occurred over the last few years.

1. Before, people wrote everything on paper, the notes were then passed to their secretary for typing after returning from their business trip. Only then could the information be distributed to all the people needing it. You can imagine that it took at least 4 precious weeks from the start of your business trip until everything was completed.
2. Some people wrote everything on paper and in the evening dictated the content into a small micro cassette recorder. Their secretary at home would then type it and distribute it to the people that needed it. You can imagine that it took 2-3 precious weeks from the start of your business trip until everything was completed. Alternatively, the micro cassettes could be sent by courier service, which saved some time.
3. Nowadays, people type their vital information in their notebook computer and send it to the head office together with the matching photos at the end of each day. In that way, colleagues at home can interact and ask for additional information if something important was missed. Upon returning home from your business trip,

everything should be ready for further processing and decision making.

I suggest a large capacity battery for your notebook computer. One that lasts up to 6 hours. If this battery type is not available for your model, bring another fully charged battery along. When you have meetings away from the hotel, you will find that there is not always an electrical socket nearby to connect to your AC adaptor.

Sometimes suppliers will also pass you data on a memory stick (photos, line drawings, product descriptions, etc.) that you can immediately download to your computer.

That is especially important if it is a new development and no samples or catalogs will be available for some time.

Remember, the most up-to-date information is what you want to obtain during your factory visits.

### **You Need a Briefcase on Wheels**

If you are not into weight lifting exercises, you had better bring a large briefcase on wheels.

It is torture trying to carry your heavy briefcase all day long (with your notebook computer, catalogs, notebooks etc.). Catalogs collected during your factory visits weigh a lot and you will be exhausted half way through the day from carrying them.

### **Your Company's Catalog**

If you have your own company catalogs, bring a few sets along with you for the meetings with key suppliers. You do not have to carry them all

with you but have at least one set to show to your suppliers during your meetings.

From my experience, it makes a good impression and helps to cement the relationship with your supplier if you hand over one set during the most important meetings.

Remember you are your company's ambassador and want to show your company in the best possible light.

### **Your Corporate Identity Artwork Concept**

Creating your own corporate identity concept is very important. After spending a lot of effort on it at home, it would be a very good idea to bring it along with you to show it to the suppliers during your meetings. It enhances the impression you make and helps suppliers better understand your needs.

### **Sketches, Drawings, and Photos are Perfect Tools to Inform Suppliers**

You should also bring along any sketches, drawings, or photos clarifying what you are looking for from your suppliers. Do not forget that you are at the factory to see something new and collect a lot of information. Sometimes suppliers will tell you where you can find products and help save you a lot of time.

Also, bring ads from newspapers and magazines showing a product that is already being distributed by somebody else.

Hand over color chips of a specially selected color to suppliers. You can ask them to prepare samples for you, saving the time and cost of sending



color chips after you return home. A supplier may also have a question about the color and you can discuss the details face to face.

### **Your Specifications**

What is a specific requirement? A specific requirement could be a more complex sales packaging. For example, a window box that is more expensive.

Another specific requirement could be an instruction manual in several languages that are often needed for Europe. Importers from EC countries sometimes request up to 12 languages in their instruction manual, which is more expensive than only 1 or 2 languages.

Another requirement often requested by Hypermarkets and Supermarkets is an additional semi transparent PP strip. This prevents customers from opening the sales packaging during shopping and removing part of the contents. Depending on the size of the sales packaging, two or more of these PP strips maybe needed.

For electrical products, the plug is a substantial cost factor. The British BS plug is more expensive than the US plug.

The length of the electric cable is another cost factor. If your toaster must have a cable length of 1.50 meters, it will cost you more than one only 0.75 meters long.

### **Quality Requirements**

Your quality requirements are a very important cost factor. The requested quality standard is defined by your requested **Acceptable Quality Level** (AQL) that sets the limits for the satisfactory process average.

Usually you have 3 defect categories:

1. Critical defect
2. Major defect
3. Minor defect

Here I will only provide a short overview because this subject is thoroughly covered in my other eBook "[How to Assure Quality Imports From China](#)".

If a critical defect is discovered during a **Final Random Inspection**, the whole lot will automatically be rejected and must be re-worked or re-produced.

Allowed Major defects range mostly from Major 1.0 - Major 2.5 but that depends on the products. Hi-tech products such as consumer electronics or small/large electrical home appliances range between Major 1.0 - Major 1.5.

Allowed Minor defects range mostly from Minor 2.5 - Minor 4.0 but that also depends on the products. Hi-tech products such as consumer electronics or small/large electrical home appliances range between Minor 2.5 - Minor 4.0.

### **License and Royalty Fees**

Other important cost factors are license and royalty fees that have to be negotiated with certain suppliers. DVD players/recorders, MP3 Players, etc., are examples.

If you or the factory does not pay these fees and you get caught after importing the goods, it will be very expensive and could even ruin your company.

You should realize by now that you need to know all the details before discussing or negotiating prices with any factory during your visits.

Since you expect them to quote realistic prices, you need to inform them of your requirements in order to avoid lengthy e-mail negotiations later.

### **Your Shopping List**

Hopefully, you have your essential tools together now but one other important list needs your attention. Factory visits are time consuming and can easily distract you from your original goal of finding suitable products at competitive prices that you can sell with as much profit as possible. To avoid being distracted, you have to prepare your shopping list of the products you want to source. This list should include at least the following details:

- Product description
- Target FOB price in US\$
- Quantity of the first shipment
- If possible, an estimate of your yearly quantities
- Requested earliest delivery date
- Destination port
- Packaging information if other than standard
- Number of samples needed

It is not wise to inform all suppliers about your target prices right away. You could end up with prices matching your target prices but you may have actually been able to negotiate a lower price.

You should however always bear in mind that even with the abundance of cheap labor there are still limitations to a factory's production and pricing capabilities. You will find that out sooner or later when the 5<sup>th</sup> supplier informs you that a specifically requested target price is unrealistic.



## Chapter 11 - Guanxi, the System of Relationships

“Guanxi” which literally means “relationship”, demands that the Chinese help each other.

To fully understand the meaning of the word Guanxi, you must first take into consideration the type of Chinese social structure that originates from the past when everything was decided and planned at the top.

Consequently, once a person was assigned a specific position it was very likely that he would remain in that same position for the rest of his life.

In a system base on these characteristics, it was inevitable that obtaining even the smallest privileges depended on an informal system of interpersonal relationships built slowly over time; this is how Guanxi came to be an important social and business concept for the Chinese.

Considering that until only very recently it was necessary to have social connections just to obtain a ticket for the theater or a train, it is easy to comprehend how important and deeply imbedded this cultural attitude became. China has made great social and business strides over the last 20 years and the pace of change continues to accelerate. However, the phenomenon of Guanxi still thrives today and is likely to for some time to come.

Critical in the Guanxi system of relationships is that relationships are permanent and developed over time. By their very nature, these relationships constitute a sort of insurance policy that must be continuously nurtured and improved to gain future favorable treatment.

In the west, relationships are also important in our society but they are often treated much differently. **Once a favor has been obtained, it is**

**often immediately returned in order to remove the “debt”, similar behavior in China could be negatively interpreted as not wanting to build a lasting relationship.** Something worth remembering as you increasingly do business in China.

In order to increase the probability of success with your business initiatives in China, even foreign entrepreneurs cannot ignore the need to create a Guanxi over time, or rather a network of relationships that eases the achievement of objectives and without which you will face insurmountable barriers sooner or later.

## **Chapter 12 - Guanxi is Great to Have But You Have to Build It Up Yourself**

Many local Chinese consultants and partners offer overseas businesses a shortcut to success in the Mainland by offering to use their connections or “Guanxi” to help make things happen. Is it a good idea?

Overseas small and medium sized businesses should think of business in China like a race. Local Chinese managers like to sprint off the line and put a lot of distance between themselves and the pack in the early stages. But as many Western businessmen have found out, if you can stay in the race for a long time, you may ultimately outrun them. Local businesses often do not see the sense or appeal of long-distance races.

That analogy is helpful in explaining the issue of China connections. For newcomers who have read the airport newsstand manuals on China, there will be a strong impulse to take the “Guanxi Express” by hiring a consultant who promises lots of connections. Be aware that these are not your connections and may not ever be.

You must develop your own, which will take time.

Therefore please keep in mind “Guanxi” is great to have – but you have to build it up yourself. Be careful when trying to buy or rent it.

## **Chapter 13 - Mianzi, Protection of Reputation or Face Saving**

The word “Mianzi” literally means face and it refers to a social aspect that is given much greater importance not only in China but in all of Asia compared to Western societies. Mianzi is the concept of “saving face”.

It is extremely important in all phases of negotiation and interpersonal relationships to remember that there is nothing worse for the Chinese than to “lose face”, or be in a situation in which one is contradicted or in which one’s reputation with respect to the family, the company, and broadly speaking, society, is compromised.

For the Western entrepreneur, it is not a difficult concept to understand, given that it is a shared sentiment. What is more elusive, however, and more difficult to understand is the emphasis, considered excessive in comparison to Western culture, placed by the Chinese on the risk of compromising one’s image or losing respect.

Therefore, the foreign business representative, both in negotiations as well in interpersonal relationships, must take nothing for granted and, even in the least important decisions, must ensure that Chinese business associates do not lose face, while obviously avoiding the loss of one’s own face as well. It is essentially a question of developing a particular sensitivity, which can only be achieved after years of experience.

Let me give you an example of a face losing action, which I have personally experienced several times during business negotiations that I attended.

One Chinese supplier was reluctant or unwilling to sign a prefabricated contract and as a result the Western business manager tossed a whole



bunch of contracts into the waste paper basket while his supplier and his staff were watching. Usually Chinese don't show many emotions but one look at the face of this Chinese manager was enough to understand that he had been deeply humiliated by this action.

Additional examples of Mianzi from my long career in China will be brought up in following chapters.

## **Chapter 14 - Respecting Hierarchy**

Respect of hierarchy is of fundamental importance in China.

During meetings, the Chinese rigorously respect hierarchy, and no one may speak unless expressly questioned by someone of higher rank, who most of the time, is also the eldest of the group.

Knowing the seniority or rank of all the Chinese participants in every meeting will help you to interpret the responses received.

Generally speaking, when a Westerner is involved in a formal discussion, it is advisable to speak to a Chinese associate of similar rank. If a Western company wants to meet the President or CEO of a Chinese company, someone in a similar position must represent the requesting company. Quite often, Western companies prefer sending younger managers to the initial meetings, in order to avoid wasting time, but the presence of managers without decision making power, is interpreted by the Chinese as a lack of interest if not respect and risks compromising the outcome of the negotiations right from the beginning.

## **Chapter 15 - Some Common Discussion Points**

When visiting your suppliers' offices the meeting normally is held in their showroom. Taking a close look at their presentation and product displays should give you a pretty good idea about how well or poorly that company is organized.

Ugly, untidy, and dirty showrooms do not reflect well on the supplier's diligence. However, that impression may deceive you because your supplier may still live up to your expectations.

I have found that at least 50% of most suppliers' showrooms in Hong Kong look like a garbage dump and you might be too scared to work with these suppliers. Rest assured that you can work with these suppliers but you need to take some precautions. If you follow my checklist and receive satisfactory answers from your suppliers, you may still want to give your new supplier a try.

It is all about competence and if you have the impression that your new supplier has enough of it, go ahead and make his day.

### **Effective Questions for the Supplier**

Which questions should you ask during your meetings with each of your suppliers? You want to ask at least the following questions:

- What is your FOB price in US\$?
- What is your usual port of loading? They can sometimes offer you a choice of several ports.
- Do they have their 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?
- Who are your main customers? 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 their own injection machines?
- Is metal punching done in house?
- Is your factory ISO 9000 or ISO 9001 approved?
- In the event the quantity from your shopping list is not sufficient: What is your minimum order quantity per product?
- Which laboratory are you using for your approvals?
- What approvals does your company already have?
- Which certificates have been obtained?
- What new products do you have that are not on display?
- 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 the sample costs when you order product samples.

Here is more detail about what should be discussed based on the previous questions:

### **Delivery Time and Order Backlog**

You need to ask the factory management about their delivery time during the low and peak seasons so that you have information about how long it will take for your goods to ship. This is also important to understanding the lead time needed when placing purchase orders.

Something else that needs to be asked is their current order backlog. This indicates how well the factory is doing. If they do not have many orders, there may be a reason for it, which can be important in your decision making. If the factory won't talk about a low order backlog, there is a chance that their competitor knows which proves one more time how important it is to visit the factories in person.

### **Port of Loading**

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

### **Closest International Airport**

I want to mention that some products can only be shipped by airfreight. Notebook computers and MP3 players are typical examples. The key components of these products are ICs that constantly fluctuate in price. At present, the prices are in constant decline. Buyers need to receive their goods within a short time or they will not be able to make a profit. The price they need to charge will be higher than the price being charged for goods that were air shipped. That makes air shipment unavoidable.

## **Banking Details**

When discussing the payment terms with factory management, ask them for their banking details, which will allow you to do a background check before placing your orders with them.

## **Payment Terms**

Finally, you need to negotiate the payment terms, which are usually by irrevocable letter of credit at sight (L/C). This is usually the safest way to pay the factory and also allows them to obtain loans from their bank to start the 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 want you to jump start production with your cash. If something goes wrong and the likelihood is rather great that something will, you will lose your money and never receive a shipment.

If the staff member you are meeting with can answer most of these questions, you can be relatively sure that it is not a trading company. Even if they pretend that they have several factories working for them, they are not likely to know all of these details.

I should point out that you should have already disclosed the content of your shopping list before asking all of these questions.

## **About Your Shopping List**

Here is the information your shopping list should include. It needs to include all of the products that you want to source. Your specific requirements may go beyond this basic list:

- Product description
- Target FOB price in US\$
- Quantity of the first shipment
- If possible an estimate of your yearly quantities
- Requested earliest delivery date
- Destination port
- Packaging information if other than standard
- Number of samples needed

It is not wise to inform all suppliers about your target prices right away. You could end up with prices matching your target prices but you may have actually been able to negotiate a lower price.

On the other hand, inform your supplier of your target price if they quote a price that is not even close to what you want to pay.

It is also essential to provide your company's specifications before asking for price quotes. Of course, you can play the hide and seek game by not disclosing your requirements to the supplier. The big disadvantage with this is that you will be drawn into lengthy negotiations later because the supplier will tell you that his price was based on his own standard and everything above that must be added to the originally quoted price. There can be no doubt that the supplier is right.

I believe it is part of fair play to fully disclose your requirements up front. To do anything less may force your supplier/factory to lower the product quality by using cheaper materials in order to obtain the purchase order.

Think of the lead paint tainted toys that were recently imported into the United States but had to be recalled in very large numbers. I do not know the real reason why this cheaper but dangerous paint was used in the first

place. It could have been pure greed but it also could have been that the buyer pushed the suppliers too hard for lower prices that he could not achieve without cutting corners.

Although China is a land of nearly unlimited opportunities, their factories cannot escape worldwide developments and price hikes. Chinese suppliers/factories are also feeling the crunch and have to adjust to survive.

This means it will be difficult for you to negotiate much lower prices because there is no more room for your supplier/factory to maneuver. On the other hand, it cannot be much of a disadvantage for you because everybody faces the same problem.

Do not forget to take photos of the showroom samples with a digital camera. Sometimes you may have to shoot photos from different angles to get it right. Digital photos are essentially free, so more is better than less.

You don't often have the opportunity to meet your suppliers in person. Use your time well to collect all the information you can. What you learn now could be vital evidence if there is some kind of misunderstanding later.

## **Specific Discussion Points**

### **Visiting a new supplier for the first time to perform a detailed evaluation**

Since you want to make sure that the supplier is the right business partner, you will have to ask them many questions to verify it. Be sure to



furnish all the necessary background information so they can fully answer your questions.

You want to show them your **Company Catalog** and explain your company's policies. Part of your company's policies is your **corporate identity artwork concept**, which you need to explain thoroughly. This includes **Sketches, Drawings, and Photos** of packaging and branding information along with anything else that sets your company's products apart from others. Here you must go into detail to be sure the factory has a clear picture of what you need.

The supplier might not be able to meet your requirements but they may tell you where you can find products meeting your exact needs. This can be very helpful information and save a lot of time.

Bring along ads from newspapers and magazines showing products already being distributed by others that you are interested in for your customers.

Be prepared with **color chips** of any pre-selected colors. Ideally, these will be real chips that you cut from products similar to what you are looking to buy. You will probably want to leave these samples with the supplier so they have something tangible to develop for the plastic injection molds. Otherwise, you will lose time and money by having to send them when you get home. Your supplier may also have a question regarding the color and you can discuss the details much better face to face.

You want realistic price and delivery quotations from the supplier. To accomplish this you must inform them about your required **specifications**. Your quality requirement is a very important cost factor.

The requested quality standard is defined by your **Acceptable Quality Level** (AQL) which sets the limits of the satisfactory process average.

Finally, you need to discuss **your entire shopping list**, which is what the suppliers are mainly interested in. This gives them an idea about your company's buying potential.

This is a lot of information but if you prepare some copies for the supplier, you can focus on the main points during the meeting. Be sure to ask them to study all of the details and get back to you if they have any questions.

### **Visiting a supplier to discuss a new large volume project**

The goal of this visit assumes a certain familiarity with the supplier. Without knowledge of the supplier/factory, you would not want to place a large volume order with all the inherent risks involved.

You have to be very specific here. Give as much information as you can, to be followed by written records if possible in Chinese and English. The supplier's engineers may not listen carefully enough or may not take adequate notes. If there is a written record, it is something they can consult later if they need to verify details.

Some technical issues cannot be understood by the sales managers because they usually lack a technical background. This stresses the fact that it is important to have the right people attend the meeting.

Do not make the mistake of meeting the sales manager in the comfort of your hotel lounge for lunch to deliver the details of your project. He will never admit that he does not completely understand what you told him and the engineers will receive filtered information. Undoubtedly, lacking

the vital technical information that will cause complications with your project.

On several occasions, I have seen the engineers receive more than their share of the blame from their management for improper samples, missed deadlines, etc. If they had the correct instructions since the beginning, the entire disaster would have been averted.

At times, I have had important meetings attended by 3-4 marketing staff, up to 7 engineers, plus the company's president or vice president. Admittedly, it can be time consuming to get the entire message across to this many people. However, in the long run it is time well spent so that mistakes or complete project failures do not occur later.

Often, you begin these negotiations at the inquiry stage. Your customer at home wants more information before placing a firm order through you, the importer. You increase your chances of successfully landing the order if you can negotiate all of the terms, conditions, and price with the supplier. Your personal relationship comes into play at this stage of negotiation.

Commonly, a large retailer will request several importers to submit a proposal for a large purchase order. If you think this is the situation, ask the supplier/factory if they have received similar requests from other importers. If you have a good working relationship with the supplier, it can set the wheels in motion for you to receive the winning bid over your competition.

If you have treated the supplier fairly in the past and have not pushed unduly hard when their back was against the wall, they may reward your

good relationship with the preferential quote that seals your deal with the customer back home.

**Visiting a supplier where you are having major problems with the quality and/or delivery schedule**

Here you get right into the details by asking management for a full explanation of the problems and what they are doing to solve them.

They should have had plenty of time to investigate the problems internally, after you first alerted them. It is totally unreasonable for them to request time to investigate at this point in time. You should expect them to be reporting solutions and progress towards fully resolving every issue you have identified.

To give you a full understanding, I will illustrate with a personal example. One of our factories was scheduled to deliver a large quantity of products with a tight deadline. Three separate shipment dates were involved. Unforeseen events delayed the start of production. This was compounded by the fact that they only had a single mold for the plastic injection machines. It became obvious they were not going to be able to meet the first shipping deadline for this important contract.

Working closely with the factory management, I was able to convince them to manufacture another injection mold. Although it increased their costs for this project, management realized that it would enable them to take on additional customers in the future.

By reacting quickly and proactively, production was doubled in approximately 2 ½ months. The project was saved by reacting quickly to get a timely solution in place.

The main point is that it is essential to visit the factory yourself or appoint a **consultancy service organization** like our company (<http://www.webmediabiz.com/consulting.php>), as soon as possible, when you are facing major problems. Problems with large volume orders cannot afford delayed solutions. Not only does this solve the immediate problem but it also demonstrates that you mean business and expect the factory to take any problems with your orders seriously.

Subcontractors may also be part of the problem. The factory may not be receiving the needed or correct raw materials, components, printed materials, etc. Do not hesitate to insist these parties directly participate in the meetings. They may only need to attend specific sessions but they definitely need to be part of the solution, if they are part of the problem.

Make it clear to the factory that you expect a solution to the problem to be found during your visit. Do not give them the option of waiting until you return home before proposing and implementing a solution. Once you do return home, request that regular progress reports be sent to you.

### **Detailed negotiates of conditions and prices for new large volume orders**

It is common to negotiate better conditions and prices for large volume orders with the factory. If you can give them a larger than average order, they in turn have a better chance of negotiating lower prices for raw materials and components if they order them in bulk quantities.

Here is an example of negotiating the details. If the factory needs an average of 50K electric switches per month they typically negotiate the price based upon 50K per month. If you come to them with an order requiring 200K electrical switches for a single shipment they will certainly get a better price from their supplier that can be included in a lower price

quote for you. This might only be 2 or 3 US cents but adding up the savings on all the components will give you a substantial price reduction.

Of course, this also applies to printed material and packing materials. Do not forget to ask for a price concession for the factory's savings from reduced tooling setups and other production startup costs when they will benefit from a long production run.

Just telling the factory that you need a 10% lower price is not convincing to the factory. They will give you the standard reply that they cannot afford it. The right strategy is breaking down the product into its components or materials to make your request more convincing. Remember, every saved cent increases your profit margin. However, be realistic and do not overdo the negotiations because it could backfire. The factories might choose to save costs by reducing the quality of the delivered product.

Again, a real life example to demonstrate what could happen. Factories can increase the percentage of recycled plastic material marginally and you won't realize it even during a final random inspection.

The plastic material becomes softer and the surface less glossy. It also leads to a lower melting point for the plastic. If it is used for home electrical appliances (toasters for instance) it may more easily deform when exposed to heat.

Another quality problem with plastic materials that you may have experienced in your own home is the lack of UV stability. Lack of UV stability causes discoloration in plastics when exposed to sunlight over time. UV stability is a cost factor to the factory and they know it will not be caught until long after the goods leave the factory.

If you intend to import electrical appliances and electronic equipment to Europe, the goods must comply with the **ROHS** directives (Restriction of Hazardous Substances). Member states agreed that after 1<sup>st</sup> July 2006, any product new to the market will not contain any of the six banned substances in quantities exceeding established maximum concentration values. The six substances are lead, mercury, cadmium, hexavalent chromium, poly-brominated biphenyls (PBB), and polybrominated diphenyl ethers (PBDE).

The factory must prove to you that they are complying with these directives, but it is very difficult for you to verify it because of the high cost involved.

The point is to make you aware that the factory has plenty of options to reduce their cost when you negotiate unreasonably. First, they will use legal methods to get costs down but might resort to illegal methods if you push them too hard. Your working relationship should be a partnership that seeks a compromise rather than to continue squeezing.

Those are the general discussion points but you need to address these other key points during the meeting:

### **Check One More Time to Be Sure the Factory Clearly Understands Your Specifications**

Most important is to make sure that factory management understands your specifications.

What sort of things do you need to specify? Have you included?:

- 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 do not go over well in Europe or the USA.

Many importers use the Pantone Color Chart numbers to instruct the factory about their color or color combination requirements. Follow this link to the online Pantone Color Chart:

<http://www.source-werbeartikel.com/Pantone>

I can tell you from my experience that the results will not be very good. Especially if you have several factories involved which have to follow your color requirements.

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 piece that is a reasonable size to each factory. Reasonable does not mean a thumbnail sized one because it is not large enough for the factory to make the injection color accurately.

### **Other Tests That Should be Considered**

Also, consider the tests to be conducted during manufacturing and at 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, Philips, or any owner of a well-known brand certainly will not 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.

Worse yet, not only will there be little or no warranty but 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.

## **Chapter 16 - Know About the Thirty-Six Strategies**

The Thirty-Six Strategies is a collection of 36 Chinese proverbs illustrating militaristic tactics.

These 36 Chinese proverbs detail 36 historical Chinese battle scenarios, predominantly taken from the Chinese historical fables of the Warring States Period and the Three Kingdoms Period. They are also known as “36 Stratagems”, or “36 Tactics”. They are more oral folk traditions than written document, as there have been many Chinese writers who attempted to compile the “36 Strategies” from multiple variations in oral Chinese history.

Why am I telling you about these ancient strategies?

Today, the “Thirty-Six Strategies” are more suitably applied in the fields of politics, diplomacy, and espionage. Surely politics and diplomacy will be part of your business negotiations. Experienced and educated Chinese business negotiators are familiar with the content of the “Thirty-Six Strategies” and may use it for their advantage. Therefore, it would be very helpful if you have at least studied and understood this very old Chinese wisdom.

Here is a modern translation of these “Thirty-Six Strategies” for your perusal. You will find some of these strategies still in use and knowing them will help you to make your business negotiations with your Chinese business partners more successful.

For instance, if you are invited to a Karaoke Bar by your host, please have a look at Strategy 31 and you will understand the reason behind the invitation.

## Winning Strategies

- **Strategy 1 "瞒天过海" - Deceive the sky to cross the ocean.**  
Moving about in the darkness and shadows, occupying isolated places, or hiding behind screens will only attract suspicious attention. To lower an enemy's guard you must act in the open, hiding your true intentions under the guise of common every day activities.
- **Strategy 2 "围魏救赵" - Surround Wei to rescue Zhao.**  
When the enemy is too strong to attack directly, then attack something he holds dear. Know that in all things he cannot be superior. Somewhere there is a gap in the armor, a weakness that can be attacked instead.

In other words, you may try to attack the relatives or dear ones of the enemy to weaken him psychologically.

- **Strategy 3 "借刀杀人" - Borrow one's hand to kill (kill with a borrowed knife).**  
Attack using the strength of another (because of lack of strength or not wanting to use your own strength). Trick an ally into attacking him, bribe an official to turn traitor, or use the enemy's own strength against him.
- **Strategy 4 "以逸待劳" - Make your enemy tire himself out while conserving energy.**  
It is an advantage to choose the time and place for battle. In this way you know when and where the battle will take place, while your enemy does not. Encourage your enemy to expend his energy in futile quests while you conserve your strength. When he is exhausted and confused, you attack with energy and purpose.
- **Strategy 5 "趁火打劫" - Use the opportunity of fire to rob others (loot a burning house).**

When a country is beset by internal conflicts, when disease and famine ravage the population, when corruption and crime are rampant, then it will be unable to deal with an outside threat. This is the time to attack.

- **Strategy 6 "声东击西" - Feign an attack in the east and attack in the west.**

In any battle the element of surprise can provide an overwhelming advantage. Even when face to face with an enemy, surprise can still be employed by attacking where he least expects it. To do this you must create an expectation in the enemy's mind through the use of a feint.

### **Enemy Dealing Strategies**

- **Strategy 7 "无中生有" - Create something from nothing.**

You use the same feint twice. Having reacted to the first and often the second feint as well, the enemy will be hesitant to react to a third feint. Therefore, the third feint is the actual attack catching your enemy with his guard down.

- **Strategy 8 "暗渡陈仓" - Secretly utilize the Chen Chang passage (repair the highway to take the crude path).**

Attack the enemy with two convergent forces. The first is the direct attack, one that is obvious and for which the enemy prepares his defense. The second is the indirect, the attack sinister, that the enemy does not expect and which causes him to divide his forces at the last minute leading to confusion and disaster.

- **Strategy 9 "隔岸观火" - Watch the fires burning across the river.**

Delay entering the field of battle until all of the other players have become exhausted fighting amongst themselves. Then go in at full strength and pick up the pieces.

- **Strategy 10 "笑里藏刀" - Knife sheathed in a smile.**

Charm and ingratiate yourself to your enemy. When you have gained his trust, you move against him in secret.

- **Strategy 11 "李代桃僵" - Plum tree sacrifices for the peach tree (sacrifice the silver to keep the gold).**

There are circumstances in which you must sacrifice short-term objectives in order to gain the long-term goal. This is the scapegoat strategy whereby someone else suffers the consequences so that the rest do not.

- **Strategy 12 "顺手牵羊" - Stealing a goat along the way (take the opportunity to pilfer a goat).**

While carrying out your plans, be flexible enough to take advantage of any opportunity that presents itself, however small, and avail yourself of any profit, however slight.

### Attacking Strategies

- **Strategy 13 "打草惊蛇" - Startle the snake by hitting the grass around it.**

When you cannot detect the opponent's plans launch a direct, but brief, attack and observe your opponent's reactions. His behavior will reveal his strategy.

- **Strategy 14 "借尸还魂" - Borrow another's corpse to resurrect the soul (raise a corpse from the dead).**

Take an institution, a technology, or a method that has been forgotten or discarded and appropriate it for your own purpose. Revive something from the past by giving it a new purpose or to reinterpret and bring to life old ideas, customs, and traditions.

- **Strategy 15 "调虎离山" - Entice the tiger to leave its mountain lair.**

Never directly attack an opponent whose advantage is derived from its position. Instead, lure him away from his position thus separating him from his source of strength.

- **Strategy 16 "欲擒姑纵" - In order to capture, one must let loose.**

Cornered prey will often mount a final desperate attack. To prevent this you let the enemy believe he still has a chance for freedom. His will to fight is thus dampened by his desire to escape. When in the end the freedom is proven a falsehood the enemy's morale will be defeated and he will surrender without a fight.

- **Strategy 17 "抛砖引玉" - Tossing out a brick to get a jade.**

Prepare a trap then lure your enemy into the trap by using bait. In war, the bait is the illusion of an opportunity for gain. In life, the bait is the illusion of wealth, power, and sex.

- **Strategy 18 "擒贼擒王" - Defeat the enemy by capturing their chief.**

If the enemy's army is strong but is allied to the commander only by money or threats, then take aim at the leader. If the commander falls, the rest of the army will disperse or come over to your side. If however, they are allied to the leader through loyalty then beware, the army can continue to fight on after his death out of vengeance.

### Chaos Strategies

- **Strategy 19 "釜底抽薪" - Remove the firewood under the cooking pot (remove the handle from the axe).**

When faced with an enemy too powerful to engage directly, you must first weaken him by undermining his foundation and attacking his source of power.

- **Strategy 20 "混水摸鱼" - Fish in disturbed waters.**

Before engaging your enemy's forces, create confusion to weaken his perception and judgment. Do something unusual, strange, and unexpected as this will arouse the enemy's suspicion and disrupt his thinking. A distracted enemy is thus more vulnerable.

- **Strategy 21 "金蝉脱壳" - Slough off the cicada's shell (false appearances mislead the enemy).**

When you are in danger of being defeated, and your only chance is to escape and regroup, then create an illusion. While the enemy's attention is focused on this artifice, secretly remove your men leaving behind only the facade of your presence.

- **Strategy 22 "关门捉贼" - Shut the door to catch the thief.**

If you have the chance to completely capture the enemy then you should do so thereby bringing the battle or war to a quick and lasting conclusion. To allow your enemy to escape plants the seeds for future conflict. But if they succeed in escaping, be wary of giving chase.

- **Strategy 23 "远交近攻" - Befriend a distant state while attacking a neighbor.**

It is known that nations that border each other become enemies while nations separated by distance and obstacles make better allies. When you are the strongest in one field, your greatest threat is from the second strongest in your field, not the strongest from another field.

- **Strategy 24 "假道伐虢"- Obtain safe passage to conquer the Kingdom of Guo.**

Borrow the resources of an ally to attack a common enemy. Once the enemy is defeated, use those resources to turn on the ally that lent you them in the first place.

### **Proximate Strategies**

- **Strategy 25 "偷梁换柱" - Replace the beams with rotten timbers.** Disrupt the enemy's formations, interfere with their methods of operations, change the rules in which they are used to following,

and go contrary to their standard training. In this way, you remove the supporting pillar, the common link that makes a group of men an effective fighting force.

- **Strategy 26 "指桑骂槐" - Point at the mulberry and curse the locust.**



To discipline, control, or warn others whose status or position excludes them from direct confrontation; use analogy and innuendo. Without directly naming names, those accused cannot retaliate without revealing their complicity.

- **Strategy 27 "假痴不癫" - Pretend to be a pig in order to eat the tiger (play dumb).**  
Hide behind the mask of a fool, a drunk, or a madman to create confusion about your intentions and motivations. Lure your opponent into underestimating your ability until, overconfident, he drops his guard. Then you may attack.
- **Strategy 28 "上屋抽梯" - Remove the ladder when the enemy has ascended to the roof (cross the river and destroy the bridge).**  
With baits and deceptions lure your enemy into treacherous terrain. Then cut off his lines of communication and avenue of escape. To save himself he must fight both your own forces and the elements of nature.
- **Strategy 29 "树上开花" - Deck the tree with false blossoms.**  
Tying silk blossoms on a dead tree gives the illusion that the tree is healthy. Through the use of artifice and disguise make something of no value appear valuable; of no threat appear dangerous; of no use appear useful.
- **Strategy 30 "反客为主" - Make the host and the guest exchange places.**  
Defeat the enemy from within by infiltrating the enemy's camp under the guise of cooperation, surrender, or peace treaties. In this way, you can discover his weakness and then, when the enemy's guard is relaxed, strike directly at the source of his strength.

## Defeat Strategies

- **Strategy 31 "美人计" - The beauty trap (the tender trap, use a woman to ensnare a man).**  
Send your enemy beautiful women to cause discord within his camp. This strategy can work on three levels. First, the ruler becomes so enamored with the beauty that he neglects his duties and allows his vigilance to wane. Second, other males at court will begin to display aggressive behavior that inflames minor differences hindering co-operation and destroying morale. Third, other females at court, motivated by jealousy and envy, begin to plot intrigues further exacerbating the situation.
- **Strategy 32 "空城计" - Empty fort (mental trap, empty a fort to make enemy think it is filled with traps).**  
When the enemy is superior in numbers and your situation is such that you expect to be overrun at any moment, then drop all pretence of military preparedness and act casually. Unless the enemy has an accurate description of your situation this unusual behavior will arouse suspicions. With luck, he will be dissuaded from attacking.
- **Strategy 33 "反间计" - Let the enemy's spy sow discord in the enemy camp (use enemy's own spy to spread false information).**  
Undermine your enemy's ability to fight by allowing the enemy's spy to remain within your ranks, while you feed false information causing the enemy discord with his friends, allies, advisors, family, commanders, soldiers, and population. Preoccupied settling internal disputes, your enemy's ability to attack or defend is compromised and your control of him is increased.
- **Strategy 34 "苦肉计" - Inflict injury on one's self to win the enemy's trust (fall into a trap; become baited).**

Pretending to be injured has two possible applications. In the first, the enemy is lulled into relaxing his guard since he no longer considers you to be an immediate threat. The second is a way of ingratiating yourself to your enemy by pretending the injury was caused by a mutual enemy.

- **Strategy 35 "连环计" - Chain together the enemy's ships (never rely on but a single strategy).**

In important matters one should use several strategies applied simultaneously. Keep different plans operating in an overall scheme; in this manner if any one strategy fails you would still have several others to fall back on.

- **The 36th strategy "走为上" - Run away to fight another day.**

If it becomes obvious that your current course of action will lead to defeat then retreat and regroup. When your side is losing there are only three choices remaining: surrender, compromise, or escape. Surrender is complete defeat, compromise is half defeat, but escape is not defeat. As long as you are not defeated, you still have a chance.

Source: [http://en.wikisource.org/wiki/Thirty-Six\\_Strategies](http://en.wikisource.org/wiki/Thirty-Six_Strategies)

## **Chapter 17 - How to Conduct the Negotiations**

After you have learned some basics about the two aspects of Guanxi and Mianzi and studied the “Thirty-Six Strategies”, you are ready to get into action and start your business negotiations with your Chinese business partner.

### **Differences Between Hong Kong and Mainland**

Business negotiations with Chinese business partners in Hong Kong could be different from comparable negotiations in Mainland China cities such as Shanghai, Guangzhou, or Xiamen.

The Cantonese tend to be more westernized due to the influences of Hong Kong and constant contact with Western traders for hundreds of years. They are more accustomed to doing business with foreigners and are more efficient. However, Cantonese business people can often be more adamant about having things their own way and so foreigners should be firm about their position during negotiations.

In Hong Kong, there may not be any language barrier and their more Western way of thinking makes business negotiations perhaps a little bit easier than in Mainland China. You will find this out very quickly and need to adjust your business negotiations accordingly.

Let’s enter the conference room or showroom now and begin with our business negotiations.

### **Inside the Conference Room**

Meetings are conducted in a formal manner. You will be led into a room in which the Chinese are already present.

If it's a larger company, you may be shocked at how many staff members have been assembled for your arrival but they may not all participate in the negotiations. The company wants to impress you and showing all that they have is one way of doing it.

Chinese usually greet one another with a slight bow or nod of the head. In business and with foreigners, a handshake is common upon greeting and departure.

When meeting someone for the first time, short handshakes are typically followed by the Chinese greeting of , "ni hao" in Mainland China or, "Ne ho ma" in Cantonese, in the Hong Kong and Guangdong provinces. Both translate as, "How are you?"

The Chinese pride themselves on holding their feelings inside, therefore, they may not smile at a first greeting or as often as people do in some other Asian countries (Thailand for instance). The Chinese typically have a "blank" facial expression during introductions. This is not a sign of unhappiness, dissatisfaction, or unfriendliness, but reflects the belief that there is virtue in concealing emotions.

It is also time to exchange your business cards and to be seated. The principal guest is usually seated to the principal host's right on a sofa, or chairs opposite the door.

If there are windows in the room, visitors will always be seated with their back to the windows to avoid being blinded by bright sunlight.

### **Tips for Small Talk**

By all means, avoid any temptation to immediately begin business negotiations or to disclose your strategy. In the beginning of a meeting,

“small talk” is essential. Talk about the weather, family life, travel, art, or of your positive experiences in China and of its people. Business should be addressed after people feel comfortable with each other.

When talking, always address the senior Chinese representative.

It is interesting to know that casual conversation topics in China differ from that of English speakers. With the Chinese it is not impolite to ask about:

- A person's job
- Annual salary
- Marital/dating status
- Age

The willingness to answer questions is the important take-away from the conversation. Questions about family tend to be deflected or avoided which is nearly the direct opposite of Western culture.

Your answers do not have to be extremely specific, but avoiding direct questions will be viewed with wariness and suspicion.

In Western style business, we focus on the deal, the possibilities, and the risks and so on. There is less focus on the people we are doing business with.

In China it is the opposite. What sort of person you are is more important than what you are doing. A good deal of time is spent exploring people's characters. People want to know your background, your family situation, your likes and dislikes.

In Chinese culture, the question “Have you eaten?” or “Where have you been?” is the equivalent to “How are you?”. It is just a superficial inquiry that does not require a detailed answer.

In our Western society we tend to search for direct eye contact with our negotiation partners during business negotiations. The Chinese however will often avoid eye contact during conversations, especially when talking to the opposite sex or to strangers.

Traditionally, it was considered impolite and aggressive to look directly into another one's eyes while talking, and is seen as a sign of disrespect. The Chinese sometimes lower their eyes slightly when they meet others.

### **Let Them Smoke**

There are 350 million people who smoke in China. They consume 1.8 trillion cigarettes each year, or one third of cigarettes smoke worldwide.

Many Chinese consider smoking, usually among men, the right thing to do in a business environment. Opposite from most Western countries where smoking is banned in more and more areas, you better let your Chinese business partners smoke, especially if the meeting lasts for several hours.

### **Rude Gestures to Avoid**

Many common Western gestures are considered rude in China.

- Avoid making expansive gestures and using unusual facial expressions
- The Chinese do not use their hands when speaking, and will only become annoyed with a speaker who does. Some hand gestures, however, are necessary. For example, to summon attention, turn

your palm down, waving your fingers toward yourself and use your whole hand rather than your index finger to point.

- Showing the soles of shoes should not be done
- Do not beckon someone with the index finger – use the hand with fingers motioning downward as in waving instead
- Whistling to get someone's attention is not appropriate
- Finger snapping is rude

Chinese communication is ambiguous, indirect, and highly contextual. In conversation, the real meaning, especially if it's negative, is often implied rather than stated. What is **not** said is often more important than that what is said.

### **The Important Thing to Know about Chinese “Yes” and “No”**

Chinese people would rather say what they think you want to hear, rather than tell you the truth. They therefore do not like to say “No” in a business meeting or admit they do not understand something. Be aware that **“maybe” or “I’ll think about it” usually means “No”**.

In order to avoid problems, questions should not be phrased as: “Can you do this for us?” A better way of phrasing it is: “How will you do this for us and when will it be done?”

The same applies to your answers. Instead of plainly saying: “No”, you are better off using an expression like: “I will have to look into that” or “I am not sure we could do that”.

Don't take your Chinese counterparts' saying “Yes” literally to mean affirmative. Chinese people have a habit of saying “Yes”, or nodding their heads, to show that they are paying attention or that they're following



what you say. In such a context, the word “Yes” does not mean that they agree with what you say or with your terms.

In order to avoid misunderstandings, get as much in writing as possible and structure meetings so there is a short review at the end of the meeting to confirm everything.

You will be surprised to find out how many details have been misunderstood or not agreed to. In chapter 25 there is more information about the importance of contracts.

Be precise and never leave anything open for interpretation because it will come back to haunt you when you least expect it.

### **Use Visual Aids if You are Making a Presentation**

I have found that using a flip chart helps a lot to draw your counterpart's attention to the details and important items of a meeting. Besides overcoming the language barrier, it gives the Chinese side a chance to make corrections or interpretations that remain visible during the entire meeting.

Some companies have electronic flip charts that can print out the written information. However, you will find that for the most part only larger companies use them because they are quite expensive.

PowerPoint presentations can also be helpful as long as the content is clear and related to your business negotiations.

## **English as the Business Language**

Internationally, the English language is being spoken more and more. It is now considered the *lingua franca* of business in many countries including China.

That does not however mean that business people in China will speak English at the same level of competence as you do; it is probably their second or third language. Accents and speech patterns affect clarity, even for native speakers. Remember that your audience may have learned British English (Hong Kong) rather than American English, and that their instructor was most likely not a native speaker.

Speak slowly, in short sentences, enunciate, and pronounce words clearly. If you use slang and colloquialisms it is unlikely you will be understood.

Chinese often pause when speaking. Do not become agitated because it is one of their customs. The pauses are a sign of measure and considered thoughtful in Chinese culture. Get used to it and try not to interrupt your Chinese counterpart when he is making a point.

## **Have an Exit Strategy**

Before you go into any meeting (not only in China) you must consider your options for an exit strategy. What are you going to do if things don't work out as expected?

In one of my other eBooks, [How To Settle Factory Claims In China More Successfully](#) I suggest you call it a day and leave the supplier if an hour-long negotiation has gone nowhere. That is always an option that you have, but it is also the last resort, because there is usually no way to gracefully resume negotiations.

If the going gets tough, you may let the Chinese side know that they are not the only game in town. Competition between Chinese producers is increasing. There may be other sources in the country for what this supplier has to offer. Let the Chinese side know that failure to agree is a preferred alternative to making a bad deal.

### **Talk to a Decision Maker in Private**

Sometimes it is a good strategy to talk to one of the key decision makers in private. Chinese people do not tend to express what they have on their mind in public. But when they are with you in a “one-on-one” situation, without other people around, they are direct and straightforward.

In that way, you may also learn what the real problem is instead of listening to their excuses. When I am walked around at new factories, I always take the opportunity to ask the “tour guide” questions that he would not have answered during meetings.

### **Helpful Tips for Your Negotiations**

#### **Always try to find out what the real story is behind everything.**

Often with the Chinese, there is both a cover story and the real story which no one wants to tell you. Only by asking many questions will you be able to determine what is really going on. A typical story for production delays is a “broken mold” that prevents production from progressing. In many cases the “broken mold” will evaporate if you ask to examine it. The problem lies somewhere else, which you need to find out.

Solutions can be only discussed and found after everyone knows all the real problems. Focusing on fabricated issues is meaningless and a waste of time.

**White face/black face or good cop/bad cop strategy.**

Both Chinese and foreign negotiators will employ this strategy during their business negotiations. The Chinese like to have the boss be the white face (good cop) and the manager to be the black face (bad cop). Foreigners mostly reverse these roles but for the Chinese boss, his face is more valuable, and it is important that he can keep options open.

We have used this strategy many times in our negotiations and in most cases it worked quite well. In one case, the Western company owner stood up and yelled at his son, who was conducting the negotiations, questioning how he could accept such treatment by the Chinese supplier. They were shocked but since it was not directed at them, they did not lose their face and finally made some more concessions.

Sometimes it is all a big show and you act accordingly without breaking the rules.

**The sacrificial lamb**

This is a fairly common strategy in China. Cutting an employee loose is often easier than making face-losing issues, the responsibility of a top decision maker.

I have seen this strategy used several times and it is usually the sales manager or QC manager who will be blamed for the problems. Replacing him or her is much easier in China since there is an abundance of labor available. The sacrifice also sends a signal to the customer that the factory is really willing to make significant concessions.

## **How to Avoid Price Increases**

In times of ever-increasing raw material and components costs, VAT refund reductions, and higher energy costs, price negotiations will continue to be at the top of the priority list.

You as an importer will face the problem, that you sold your products to homeland customers based on a fixed buying price and have no way to renegotiate your selling price. Your supplier will tell you that he cannot keep the agreed-to-price because his increased costs do not allow it. You are caught in the middle.

For these negotiations, it is very important that you know as many details as possible about the cost structure of your products. You need to make a breakdown of the costs that will prove that the higher oil prices (plastic parts) that your supplier is claiming as his main reason to raise prices, is only marginally affecting the total cost price of your product. Without these facts, you will become involved in endless price negotiations.

If your supplier is trapped in a lie, it is not the time to gloat. Instead, offer them a way out. Give in on something that you can afford and something that costs less than a damaged relationship. It will also give you leverage for your future negotiations because you can always refer to the fact that you previously accepted a compromise.

## **How to Negotiate Price Reductions**

All price quotations in China are calculated based on the individual BOM (Bill of materials) list, which is a document used by a manufacturer or other business to authorize a set of purchases to be made or to request materials to be pulled from inventory in order to fulfill a customer order.

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 part in your supplier's calculation - actually the most important part, because most of the other costs cannot be changed. The factory cannot significantly reduce the 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 operation 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.

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**

Consider this example 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 and the hair dryer starts burning because of a faulty switch, the lack of 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 it becomes that he will 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.

### **Time is On Their Side but You Can Also Play That Game**

This is definitely something that China has learned that the West has not. The longer they wait, the more desperate we typically become. The



classic Chinese tactic is to have meaningless meeting after meaningless meeting to overwhelm you with nothing.

The solution? First arrange a meeting with someone that is important and has other business to do – e.g. a factory owner or high-level manager. Like you, they have little time to waste doing nothing. Second, a couple of days is not really a long time – learn to wait. Third, if you need to, sit them out. They cannot put you off forever and they will be increasingly uncomfortable the longer you hold them to their promises of “the boss will be here soon”.

This strategy then extends to meetings as well – they may be long, but keep your points and get what you came for. I have seen foreigners leave China with less than what they wanted on a project, worth hundreds of thousands of dollars, because they had a two thousand dollar flight to catch to get back home.

Here is an example that earned me the respect of a company owner. I had a meeting in China with one of our audio factories because they wanted to delay all of our orders for weeks and months and we needed the goods urgently for our customers’ promotions during the peak season. After several hours of unsuccessful negotiating in the factory, they switched off the lights (around 6:00PM) and told me that they and their workers have to go for dinner now. They expected me to leave, since I was not invited for dinner. Instead of leaving, I just kept sitting and forced the company owner to continue with our negotiations and later that evening we found an acceptable compromise.

I actually had no choice, because our company had a large booth at the Berlin consumer electronics fair and the company owner needed to inform our customers about the outcome of my negotiations.

I want to emphasize again, reserve enough time for your negotiations. You will not be back in China soon and must make the most of negotiations while you are there.

### **There is Not Always a Second Chance**

One thing that I believe that Chinese factories do not or will not understand is that sometimes you cannot fix a mistake. Maybe the window of opportunity has passed. Maybe the money is gone. Maybe the buyer has moved on, cutting their losses for a better supplier. Whatever the case, my experience is that Chinese factories honestly believe that “with a little more time we’ll get it right”, or “if you just give me another week we can fix it.” It seems near to impossible to get suppliers to understand that buyers do not want fixed or late products.

The difficulty is often in the fact that money is at stake – not just a deposit that may need to be returned but time invested in a product that is now most likely worthless.

### **Realize the Limits of Your Chinese Supplier’s Capabilities**

There are limits to what can be done financially, emotionally, and physically. This is just the reality of life. There are only so many “additional” workers that can be added to a production line to increase the production capacity. There are only so many pieces per day your factory’s injection machine can produce. There is only so much money that a factory can spend at any one time on any single problem.

There is only so much arguing that is tolerable before it is just not worth it any more. Despite what your contract has committed you both to, physical realities are often less optimistic. You may be frustrated that your supplier is just not cutting it for you. But maybe they honestly

cannot meet the standards you have set. If you are willing to accept the reality, you will be able to refocus your frustration or negotiations to meet the physical or financial capacities of the supplier.

Of course, do not just take their word for it – check it out.

## **Chapter 18 - Be Patient and Always Remain Calm**

The number one rule during business negotiations in China is "Take all the time in the world". If you are in a rush because you have to go to another meeting or have a plane to catch, you will lose.

The Chinese tend to extend negotiations well beyond the official deadline to gain advantage. On the final day of your visit, they may even try to renegotiate everything.

Having said that, I must remind you that Chinese business partners do not always control the schedules of their visitors tightly enough. If you are on a business trip and have to catch the last ferry back to Hong Kong, you surely do not want to miss that.

I have seen on many occasions that only after several reminders are visitors rushed at high speeds to the ferry pier just barely in time to catch the last ferry. Please take some good advice and control your own schedule by telling your host at the beginning when you must leave and that there will be no exception. This specifically applies to visits from Hong Kong to various southern Chinese cities by high speed ferries.

Other than when pressed for time to catch the last ferry to Hong Kong, be patient, show little emotion, and calmly accept that delays will occur. Moreover, do not mention deadlines.

The open display of emotions, both positive and negative, is not appreciated. Loosing your temper, confronting someone, putting someone on the spot, arrogant behavior, or failing to accord proper respect can cause a loss of face for your Chinese business partner and is therefore unacceptable.

Chinese suppliers also do not respond well to aggressive negotiation tactics like shouting, threats, or ultimatums.

## **Chapter 19 - Know the Tricks of the Trade**

Chinese negotiators are shrewd and use a wide variety of bargaining tactics. The following are just a few of their more common strategies:

### **Controlling the Meeting Place and Schedule**

The Chinese know that foreigners who have traveled all the way to China will be reluctant to return home empty-handed. Putting pressure on foreigners just before their scheduled return can often bring useful benefits to the Chinese side.

### **Threatening to Do Business Elsewhere**

Foreign negotiators may be pressured into making concessions when the Chinese side threatens to approach rival firms if their demands are not met.

### **Using Friendship to Extract Concessions**

Once both sides have met, the Chinese side may remind the foreigners that true friends would reach an agreement of maximum mutual benefit. Make sure that the benefit is genuinely mutual and not just one-way.

### **Showing Anger**

Despite the Confucian aversion to the display of anger, the Chinese side may put on a display of calculated anger to put pressure on the foreign party, who may be afraid of losing the contract.

### **Attrition**

Chinese negotiators are patient and can stretch out discussions in order to wear their opposing business associates down. Excessive hospitality the evening before discussions can be another variation on this theme.

## **Chapter 20 - Some Dos and Don'ts of Doing Business in China**

### **Dos**

- Do respect the Chinese peoples' strong sense of national pride. You will find that due to their great achievements (3rd nation to send a person into space, economic power house, more than 4000 years of history), the modern Chinese tend to be very proud of their nation.
- Do separate fact from fiction. Virtually everything you hear about China is true, and so is the opposite.
- Do build relationships with your suppliers. Virtually all successful transactions in China result from careful cultivation of the Chinese partner by the foreign one, until a relationship of trust evolves.
- Do respect face as an essential component of the Chinese national psyche.
- Do accept the pecking order which persists in Chinese organizations even to this date.

### **Don'ts**

- Don't complain. The Chinese are usually gracious hosts, so don't abuse that hospitality. China is continuing to undergo incredible transformation but nothing is perfect. But sharing all the things you find terrible about China compared to your hometown will not win you any local friends. Always look for the positive and keep an upbeat mood.
- Don't use terms or expressions that may be considered slang or euphemisms. Telling a supplier you think this partnership will be a "homerun" does not mean much to someone who does not know the difference between a "homerun" and a "foul ball".

- Don't use expressions like "Split the difference, On the same page, Bottom line, Cost downs, Guys instead of Men, Yeah instead of Yes" etc.
- Don't talk about politics or religion
- Don't turn down dinner or drink invitations
- Don't believe it when your supplier tells you "I'm losing money on this" because he will tell that to everyone
- Don't ever change your contracts after they have been signed
- Don't cheat ,lie, double-cross, or play word games with your Chinese business partners

## Chapter 21 - Gift Giving Tips

Lavish gift giving was once an important aspect of the Chinese culture. Official policy currently forbids gift giving since such gestures may be considered bribes. That not only applies to Mainland China but also to Hong Kong SAR. For this reason, approach gift giving with discretion. The policy forbidding gift giving is however softening.

Although it may seem straight forward, giving gifts is an art form. Choosing proper gifts may challenge your perceptions of what is and is not proper.

- Only present gifts on special occasions, for instance at birthdays, festivals, weddings, or when visiting but only **after all business negotiations are concluded**.
- Small gifts, like wine, tea, candies, cigarettes, fruit, or flowers are good to give as presents. Imported goods have prestige, but do not give anything of too much value, as it will be seen as a bribe.
- Suppliers from Northern China visiting our Hong Kong office, mostly brought tea from their local area with them and we really appreciated that because it was something special.
- Present a gift to everyone in the group, or to the group as a whole, never to just one person. If not, give the gift to the most important person in the room.
- If you wish to give a gift to an individual, you must do it privately, in the context of friendship, not business.



- Do not expect that the gift will be accepted right away. Usually the Chinese will decline a gift three times before finally accepting it, so as not to appear greedy. Once the gift is accepted, express gratitude. You will be expected to go through the same routine if you are offered a gift.
- It is impolite to open a gift in front of the person who gives it to you. Chinese are brought up with the idea that gifts should be unwrapped after the guests have left. This idea has however also softened and most Chinese business people are aware of the different customs of gift giving in other countries. Therefore, just ask if you are allowed to open it and no harm will be done.
- If possible have your gifts wrapped in red paper, which is considered a lucky color. Plain red is one of the “safe” choices since a variety of meanings, many of which are negative, are attributed to colors in Chinese culture.
- Pink, gold, and silver are also acceptable colors for gift wrap. Wrapping in yellow paper with black writing is a gift only for the dead. Also, check for variations from region to region about colors.
- Never give something written in red ink as it implies the end of the relationship. Avoid white as it is associated with funerals.
- Do not give clocks as gifts because they are also associated with death. Refrain from giving knives, scissors, letter openers, etc. These imply the severing of a relationship.

### How to Make Business Negotiations in China More Successful

- Avoid giving things to people in groups of four. 4 or 14 are very bad and mean death. The pronunciation of the Chinese word four is very similar to the one for death.
- However, 3 means longevity and 8 means wealth/prosperity.

## **Chapter 22 - How Much Time Do You Need for Your Business Negotiations?**

In one of my other eBooks, [How to Settle Factory Claims in China More Successfully](#), I mentioned that you must reserve at least 2-3 days for serious business negotiations.

If it is not about high value settlement claims, you may be able to finish your business negotiations in less time.

A meeting, during which you want to discuss all the topics that I have mentioned in the previous chapters, will take at least 2-3 hours. If the meeting takes place during one of your factory visits, it is unlikely that you can finish everything in less than half a day or even a full day if you want to inspect the numerous factory areas.

You should use common sense when deciding how long your business negotiations should last. If after several hours of serious negotiations nothing moves forward and there is no sign there will be further improvement, you may have to call it a day and give it a break. If you really need to continue working with that supplier, you have to consider further concessions or produce more convincing evidence.

Your preparations for these business negotiations may not have been sufficient or you underestimated the challenge of your negotiations. Think of the “Thirty-Six Strategies” and do not give up the battle just because you seem to be losing. In such cases, it may prove crucial to look for outside help that may turn the tide in your favor.

A local consultant may be the solution for you. It is part of the Chinese tactics to delay their decisions if they know the exact date of your return flight. They know that you do not want to go home empty-handed and will

try to extract further concessions from you to achieve their goal. Knowing that your case is not lost because a local consultant can represent you puts the ball back into your court.

Please heed my advice and try not to leave unsettled decisions behind. Chances are that they will never be settled after your departure. Make a decision, one way or another.

Think of “Mianzi” because you will lose your face if you go home without achieving what you wanted.

## **Chapter 23 - Have Lunch or Dinner with the Company Owner and the Senior Managers**

If you have a positive impression of the company, are already working with them, or are intending to do so in the near future, having lunch or dinner with the company owner and his senior managers could be a great way to cement your relationship with them.

### **More Than Mere Entertainment**

Bear in mind that business lunches and dinners in China are more than mere entertainment. Lunch or dinner is a place where business is discussed, but it is typically secondary to the enjoyment of the meal and getting to know each other.

I have found that these meals have a way of slowing things down and helping to decompress from a busy day of work in the factory. A lunch or dinner with the supplier/factory management can often distill what really happened that day, as well as what needs to happen later in your relationship. A lot of times, you may learn business details at lunch or dinner that you never find out at the supplier/factory office.

It is a place where you can measure each other in a different way. Often, for example, you may meet new people who are friends of the factory owner or relatives running other factories that are an important part of the local area's production network of suppliers. These side meetings may prove useful later.

Remember your hosts are probably just as worried as you are about doing something discourteous. If you are at ease during lunch or dinner, it will go a long way toward helping your host become more comfortable too.

Whether you are just getting acquainted, working together on a production run, or celebrating an achievement, building a deeper personal bond at lunch or dinner will always benefit you and your business associates.

### **Formalities**

Depending on the region of the country you are in, and how formal the lunch or dinner arrangements are, you will find considerable variation in what is expected during the meal. Still, you can expect a few common formalities and courtesies that are commonly observed.

When at a restaurant, you will often find yourself in a private dining room and you will not be seated in the general serving area. This is a show of respect for you as a guest.

As a guest, you may be asked to sit prominently at the table in the so-called "seat of honor". Usually, this seat is facing the door of the dining room. Your back will be to the wall or window of the room as a show of courtesy and respect.

You might notice that one of the napkins is folded differently than the others; this designates who is paying for the dinner. Napkins are typically placed beneath your plate and then draped onto your lap from the table.

### **The Food**

Generally, the courses are: cold dishes, followed by hot soups, vegetables, and meat/fish dishes. Next, comes rice or noodles if more food is desired. Finally, a fruit selection might be served at the end of the meal. As the guest, everyone will be waiting for you to taste something at the start of each course before others begin, so do not be shy.

It is more polite to try a little bit of everything, even in small portions. If you find something you do not like, just leave it on your plate and move on to what you do like. You get extra points for trying more adventurous tastes when dining out, and typically there are more good surprises than bad.

## **Toasting**

Toasting with drinks can be a random free-for-all at times. Or it can be a very formal circle of toasting where the guest toasts everyone at the table individually. You do this by working around the table, alternately from right to left. Toasting may also move around the table when you are toasted by your host and then a short time later you will toast that person back before moving to the next person.

After the toast, especially if you have finished your drink, you may see your host gesturing towards you holding the empty glass with both hands; you should do the same back as a way of ending the toast.

Group toasting is often done by simply clinking your glass on the table and then raising it with both hands in a toasting gesture.

Beware however of the Chinese toast “Gan Bei” which means bottoms up. In Hong Kong but also in China they often use Cognac for this. The more expensive the better and you have to be really careful to maintain self control.

Regardless of where you find yourself in China, lunch or dinner should be fun and a chance to relax for a few minutes from the cares of the day. More often than not, it is one of the best places to build the foundations for your relationship with the factory.

From my own experience I would like to offer you an alternative to an outside lunch or dinner if you are short on time. Instead of spending time on a two hour lunch in a nice hotel restaurant, only to run out of time later, you may want to consider asking your host to arrange some fast food from a nearby McDonald's or Burger King. I did that many times during my business trips and managed to finish my schedule on time and allowing me to catch the last ferry home.



## **Chapter 24 - Sealing an Agreement with a Handshake is Not Enough**

It should be common sense that after your long and hopefully successful negotiations with your supplier, any agreement arrived at must be documented in writing.

A handshake would certainly not be enough to finalize your agreement. Everything that has been agreed to by both parties has to be documented in great detail in a contract signed by the appropriate managers of both companies.

Factories may hire lawyers to review these contracts and my advice is for you to do the same unless you have studied law and are familiar all the legal aspects of contract law.

It is essential, and I speak from experience with these types of cases. Leave nothing to doubt about your agreement and also no room for multiple interpretations of what has been agreed to.

## **Chapter 25 - Take Care with Contracts**

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

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.

### **Prompt Purchase Order Placement**

In China as anywhere else, people are highly regarded when they take action. If you visit the same factory five times without placing 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.

### **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 Proforma Invoice (P/I), their counterpart to your Purchase Order, which states that the final delivery date will only be confirmed after all necessary materials have been received.

Of course, an unspecified delivery date is not helpful to you because you want your goods on time, which means according to your schedule.

This will likely impact your delivery schedule. However, it is understandable. The factory cannot start production without receiving the necessary packing materials and that depends on the receipt of your graphic materials. Some importers have requested that finished products be stored temporarily. This is completely impractical 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.

Another reason not to begin production without packing materials is that it costs money, which the factory is not willing to pay. The goods must be stored and then retrieved from storage. They may need to be cleaned before packing can begin. All of the extra handling is just another opportunity to damage the goods or affect their performance. The best process is to package them as they come off the conveyor belt.

### **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 here because without a good relationship with the raw material vendors, factories may end up receiving the ordered material much later than anticipated. Meaning they cannot complete customers' orders on time. If they are

lucky, and that indeed depends 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.

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

### **What Must Be Included In Your Purchase Order (P/O)**

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 do not make the effort to employ lawyers just for the sake of checking P/Os. Remember, it is 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 it 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 the event there is an epidemic of 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 and 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 as 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 if 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, you are responsible to import only goods that 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.

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 that 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 - paste the contents for other products without starting from scratch.

Do not underestimate the importance of this section. If you make mistakes here, it usually will cost you money and respect. Therefore, it is advisable to discuss as much of your standard P/O content as possible with the factory management during your visit. Trying to enforce your requirements when later communicating from your home country will prove much more complicated.

You can also shorten the whole process by providing a copy or draft of your standard P/O to management during the meeting or have it sent in advance if you are certain that you are going to work with that factory.

### **One Word of Caution Regarding Contracts**

Chinese and Westerners often approach a deal from opposite ends. To a Westerner, starting with a standard contract, altering it to fit the different circumstances, and signing the revised version, seems straightforward.

Commercial law is ingrained in our thinking. But traditionally, commercial law scarcely existed in China and certainly indicated bad faith. The early appearance of a draft legal contract was seen as inappropriate or, more likely irrelevant, because it carries no sense of commitment.

The business clauses might form a useful agenda, but obligations came from relationships, not pieces of paper.

Today, returning home with a signed piece of paper is a symbol of progress, but nothing more. The Chinese may be signing a contract to please their guests. To them, a completed contract may merely be proof that both sides have grown close enough to develop a trusting relationship. Further concessions may then be requested – a difficult prospect for the Westerner who has shaved his margin down to the bone.

## **Chapter 26 - Concluding Your Business Negotiations**

In chapter 3, I told you to be absolutely prepared for your negotiations. Since your business negotiations are now finished, you should review the outcome. If there are any details that were not covered during negotiations you may still be able to settle it before leaving for home.

Finding over looked details out after returning home may prove next to impossible to renegotiate. Your Chinese business partners may lose confidence in you and your negotiation skills.

Take your time and evaluate everything one more time that has been discussed and agreed to. If some terms are not clear to you now, you better check one more time with your supplier before giving the wrong instructions to your staff at home.

## Chapter 27 - Epilog

If you frequently have to negotiate with Chinese business partners my eBook will help you **To Make Your Business Negotiations In China More Successful.**

The business landscape in China has dramatically changed in the past 10 years but certain unique behavior patterns of Chinese people have not changed and will remain for many years to come. The purpose of this eBook is to give you an insight to these patterns from an insider's point of view.

It took me many years to learn and understand their patterns and I am happy that I can share my knowledge and hopefully provide you with a few short cuts.

Since negotiations are conducted by individual people, you may have to adjust some of my advice to match with your actual situation.

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

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

Klaus-Dieter Hanke