

QUALITY ASSURANCE IN CHINA: BEST PRACTICES

Practical advice for importers who want
to avoid the traps of China sourcing

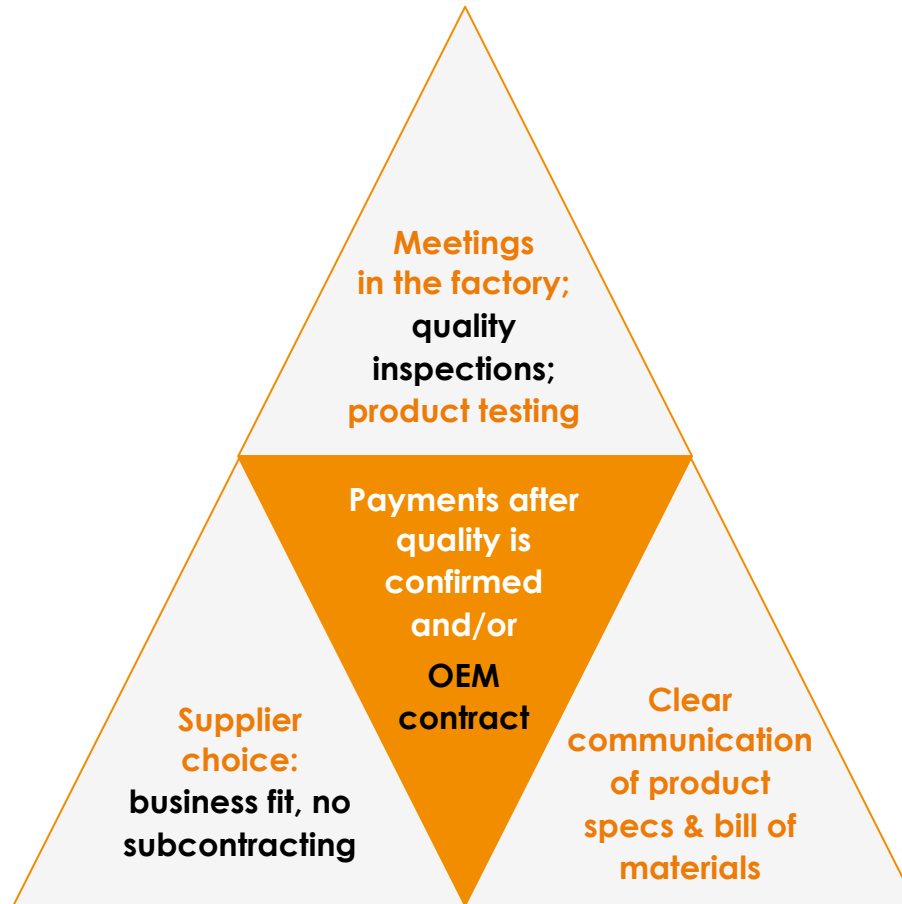
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This e-book will show you that a buyer's decisions impact quality from the very beginning of a sourcing project.

The four blocks of a good quality assurance strategy:



Introduction: setting realistic objectives

Outsourcing production to China requires more planning and more work than buying from a wholesaler in your country. Getting a price and a sample is only the beginning.

Here are a few considerations to keep in mind:

REGARDING COSTING:

Importers often forget to budget supplier qualification efforts and product quality inspections. By doing this, they try to save pennies by putting dollars at risk.

REGARDING TIMING:

Your supplier will promise you a shipment date. But there will often be delays--because you take too long to approve their samples and/or because *they* are late in production. Keep at least 2 weeks of safety in your planning. Remember, rushing production will usually affect product quality.

REGARDING QUALITY:

It is your responsibility to communicate clear specifications to the supplier, and then to verify whether they are met.

Warning: most Chinese manufacturers do not understand that if you get substandard quality, you will not be able to sell your goods at all. They often have a tendency to settle for what is “probably good enough”.

So you will also have to set *their* expectations about your production.

1st block: finding suitable suppliers

If you purchase customized (made-to-order) products, you need to look for the right source. Switching suppliers down the road can be difficult—getting the development and the production right can take more than 6 months for a new factory.

So, what criteria should you consider?

Do not look for the biggest factory, the lowest price, or an (often meaningless) ISO9001 certificate.

The key question to answer is: “is my business attractive to this supplier, and is he capable of delivering as needed?”

The most important aspect is their size. Ideally you should represent 10% to 50% of their volume:

- Do not choose a huge manufacturer who won't be flexible and will never give you priority.
- Conversely, avoid small workshops (less than 80 workers) that are highly unreliable.

You should have a good look at the factory (by sending your staff or an independent auditor):

- Is it large enough for your orders during the peak season?
- Do they regularly make products very similar to yours?
- Is their quality system reliable enough?
- Can they give you references of other customers that you can call?

Beware of uncontrolled subcontracting

Subcontracting to a cheap workshop is very common, and it is detrimental to quality in 95% of cases.

To prevent it, there are two things you can do:

- Ask your supplier to certify *in writing* that production will take place in the factory they presented;
- Conduct an inspection when production is under way (see part 4).

2nd block: defining your requirements before production starts

Some importers see a sample, approve it, and ask the supplier to launch production. This might be appropriate for some very standardized items such as computer wires, but for most consumer products it is very dangerous.

A SAMPLE IS NOT ENOUGH

You should approve a “perfect sample”, but you should also write every detail about the materials, the product specifications, and the packaging.

For every piece of information that you don't provide, a purchaser or a technician from the factory will have to make a choice. Are you sure that person will understand the intended use of your products, and all the little things that seem obvious to you? Will she resist the temptation to go for the easiest and cheapest solution?

DO NOT FORGET SAFETY STANDARDS

You should also get information about the safety regulations that are applicable to your product on your domestic market.

You may visit official websites, or ask a quality assurance firm. You can also ask your supplier about it, but this is more risky.

WRITE IT ALL DOWN

The best practice is to list your requirements in very precise terms, leaving no room for interpretation, and then having it translated into Chinese.

This way, your meaning will not be distorted by the English-speaking (non-technical) salesperson.

Then you should get a manager to approve your list of specifications and your perfect sample.

A signature at the bottom of a document can make for a powerful reminder, should you need it.

REQUIREMENTS ARE NOT ALWAYS RESPECTED

Chinese suppliers focus on getting new business, and it means their samples must be perfect.

However, bulk production rarely turns out as nice as the samples. If the importer has already wired a deposit and has promised the goods to his own customers, he cannot cancel the order easily.

Be prepared to discover that production is not up to your expectations. With a new factory, you should try to find out about it earlier rather than later (see next part).

3rd block: regular quality inspections (trust but verify)

Made-in-China products are seriously inadequate about 20% of the time. And sending a defective shipment back to China is nearly impossible.

Fortunately, your own staff or a third-party inspection company can check production quality—when the goods are still in the factory.

Warning: Chinese factories usually don't like to see professional inspectors (because they might have to re-work acceptable products and/or pay for re-inspections). So the salesperson often says “trust me, I will check quality myself”. Do not fall into that trap.

OPTION 1: INSPECTIONS DURING PRODUCTION

Checking the first finished products is very helpful to notice issues early. This way, the factory can immediately implement corrective actions and you can plan accordingly.

OPTION 2: FINAL RANDOM INSPECTIONS

For orders in regular factories, an inspection after production is finished (a few days before shipment) can keep some pressure on the factory and catch quality disasters. But if the products are not acceptable, it might be too late to re-work them.

HOW TO PLAN FOR INSPECTIONS:

- When you develop new products, ask for an extra sample (for the inspector's reference).
- Write “quality inspection required, at any time deemed necessary by the buyer” on your P/Os.
- If you pay by letter of credit, ask for a passed inspection certificate from an inspection company that you nominate.
- Keep track of the final inspection date and the ex-factory date, not only the shipment date.
- Use your bill of materials and product specs (see part 3) as checkpoints for the inspector.

LABORATORY TESTS: A COMPLEMENT TO INSPECTIONS

Depending on the relevant safety standards, you might have to get some certificates.

You have a range of solutions.

- The cheapest and riskiest is to ask your supplier to provide certificates.
- The safest but most expensive is to ask the inspector pick up samples at random, and to send them to a lab that you pay directly.

4th block: tying payments to quality approvals

Payment terms are very important because you are in a position of power as long as you owe money to your supplier:

- They will try not to be behind schedule because you might ask for a discount.
- They are not in a position to refuse quality inspections.
- They will have pressure to re-work the goods if your inspector finds quality issues.

Note: the opposite is true after you have wired a deposit: you are “hooked”—especially if your supplier can sell your production to other buyers.

Let's consider the main tools at your disposal:

THE LETTER OF CREDIT (L/C)

The safest payment method is a letter of credit because you do not have to wire a deposit.

It is usually suitable for large orders and for untested suppliers. The list of specifications (see part 3) and the passed inspection certificate (see part 4) should be among the documents required by your bank.

THE BANK WIRE (T/T)

If you need to keep bank fees to a minimum, you can pay by bank transfer. It is very common, but there are a few mistakes to avoid:

- Do not wire the 30% deposit before you get a perfect sample.
- Do not pay the remaining 70% before shipment.

If they insist on a payment *before shipment*, negotiate a payment after you have verified quality on a production that is completed in totality.

There are slight variations of these numbers depending on the situation (maybe you need to wire something before a mold is opened).

But the general principle is: **keep at least 30% of the order value on your account until production is finished and verified.**

You should discuss these terms very early, at the same time as the pricing. If one supplier refuses, others will accept.

Two frequently asked questions

SHOULD WE BUY DIRECTLY FROM A MANUFACTURER?

Most intermediaries pretend to be manufacturers. It is possible to know if this is true (many companies offer inexpensive background accounting checks).

But factories themselves routinely subcontract some orders, so this issue is seldom clear.

Some importers feel more secure purchasing from professional brokers.

My advice is: be careful. At least 80% of local trading companies have the following bad habits:

- They work with cheaper (and less reliable) factories to maximize their margin.
- When there are quality issues, the buyer is kept in the dark. The trader's interest is NOT to risk a cancelled order or to negotiate a discount.
- They don't own the factory, so they don't control it. Manufacturers usually give priority to their direct overseas customers, at the expense of the trading company and its customers.

SHOULD WE USE A CONTRACT?

China is said to have no law, but this is wrong. Enforcement of contracts is not a problem, as long as they are properly written by professionals. Do not use your regular lawyer for it, unless they have significant experience in China trade.

OEM agreements are a helpful tool, particularly for large orders and/or for situations that look particularly risky (e.g. you could not negotiate good payment terms).

The factory you approved, your product specifications and bill of materials, your payment terms, and your quality control plan will all be part of the OEM agreement. That's why I touched on these points earlier. They are the cornerstones of successful China sourcing strategies.

Note: OEM contracts also address other considerations (e.g. protection of your firm's intellectual property). Consult a specialized lawyer for more information.

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