

Target audience

Introduction to speaker

Managing expectations

Negotiations

- a) pre-negotiation homework
- b) face-to-face
- c) payment terms
- d) contract terms

Tips for Project Management

Q&A

PassageMaker Sourcing Solutions

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www.PSSchina.com



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Managing expectations about supplier negotiations

Everything is up for negotiation & no set formula

"Truth elasticity" & miscommunications mean
verification is essential

Example 1: "Are you the factory and do you
outsource anything?"

Example 2: "Can you make it?" vs "Have you
made it?"

...pre-negotiation homework

Types of Sellers

Before you negotiate. Know who you are dealing with.

Factories

Brokers/Trading Companies

Wholesalers

Finding “a supplier” is easy, BUT finding the “right supplier” is not

12 years – 300 pages – 10 videos – a few articles – 1 power point slide

CHINA SOURCING FUNDAMENTALS

Ten short videos to get you started sourcing in China, compliments of www.GlobalSources.com

Video 1: Finding Suppliers

Video 2: Evaluating Suppliers

Video 3: Negotiations

Video 4: Project Management and Quality Control

Video 5: Protecting Your Intellectual Property

Video 6: Leveraging Global Sources

Video 7: How to Find and Manage Partners for Logistics

Video 8: Avoiding Scams

Video 9: Returning Defective Products

Video 10: Resolving a Dispute

Basic Steps

1. Define the ideal supplier's attributes
Location, Equipment, Product Experience, IP, Size...
2. Online Research (GlobalSources.com)
100's of potential suppliers
3. Be picky!
Select 5 to 15 candidate factories that have a good fit and make initial contact. **Don't focus on price at this step!**
4. Audit & Due Diligence on top 2 or 3
5. Test order
6. Full order



Is my potential supplier legit? Essential Tools

Legit Quality?

Audit vs. Testing vs. Inspection

Audit:

1. Factory Audit= technically assessment of people, skills, process and equipment
2. Social Audit = child labor, min wage, OT, insurance, work place safety

Testing: In a lab. Lead Test for example.

Inspection:

Pulling a random sample from production line, warehouse or market place, to compare against agreed standards

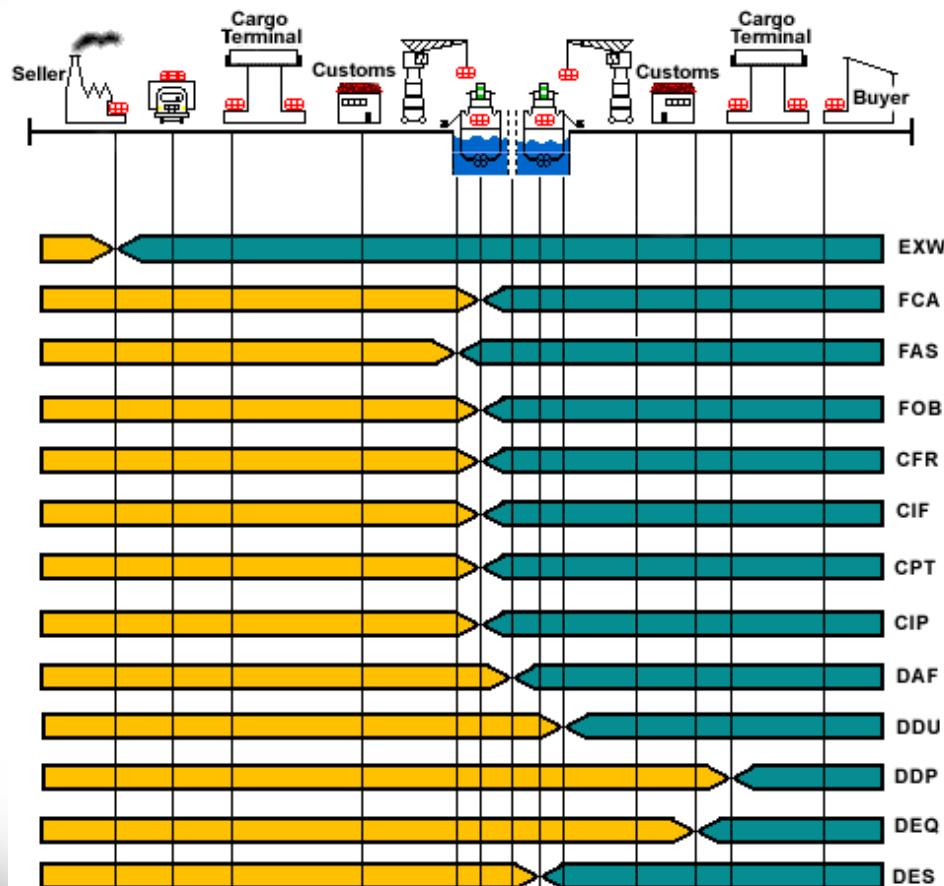
Legit Business? Basic Due Diligence vs. Detailed Investigation

FREE Tools to help answer “is the potential supplier legit?”

1. Do they have a Quality Manual?
“PQM” template available at
www.PSSchina.com
2. Ask for references!

Incoterms vs. Payments

Mike Bellamy
www.PSSchina.com



**Terms of Payment &
Transfer of Ownership**

Not the same

Dangers of ExW



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4 General Negotiation Tips

- Orient yourself toward the decision maker
- Have a Baijiu Back Door
- Using a translator (slow down, prep terms, bring your own)
- Relax

Trick: Western Speaker of Chinese

Negotiating Price

Don't rely on your negotiation skills.
Do rely on your research skills.

4 suggestions about Payments & Financial Risk

Make a road map for better terms

“30-40-30”

Financial Exposure is really Quality Exposure (assuming you have done your due diligence!)

If worried about Traditional Risk then consider:

1. Financial due diligence
2. Site visits by you or a 3rd party to confirm vendor is a real manufacturer

7 lessons learned the hard way during my 12 years in China:

1. State lead times & penalties in contract
2. If worried about IP, consider a “black box”
3. Clearly define tooling ownership (if a custom made part) (tooling steward)
4. China as legal jurisdiction of contract enforcement. (Why? Location of Defendant, Enforcement of Ruling, Cost of Battle)
5. Define the warranty terms in advance.
6. Review the written QC Plan (reference: “PQM” template at www.PSSchina.com)
7. Company Name on Contract = Bank Account Information = Name on Factory Gate

Tips for Project Management

Placement of PO is start not the end of the China project

Who's the project manager?

Be more than a PO #

Right sized factory

Get feet in the street

Schedule an OPL (who is doing what when) with
Project Gates

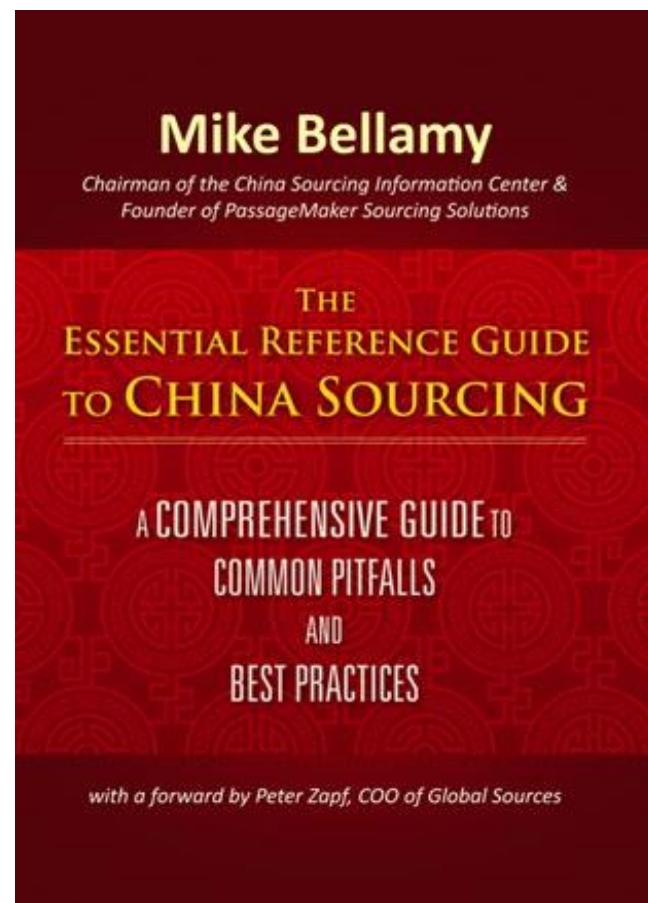
Shameless Book Plug

www.ChinaSourcingInfo.org/book

Includes templates for
PO, Supplier Contract,
Factory Audits, QC
guidelines, RFQ and more

\$58 USD online (or at
Amazon)

\$50 USD (in any
currency) at the booth
while supplies last



If take away just 3 things...

Don't waste your time negotiating with potential sellers who are not a good fit for your long term needs

If you can't afford audits and inspections in China... you shouldn't be buying from China

Name is the Same (Bank account/ contract/ address)

Q & A

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Negotiations & Contracts

Mike Bellamy
CSIC & PassageMaker



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