

Introduction

- ✓ Target audience
- ✓ Managing expectations

Scam or Sloppy Buyer?

PO's & Contracts

- ✓ pre-order homework
- ✓ negotiations
- ✓ payment terms
- ✓ contract terms

Q&A

Part 2: Project Mgmt, IP & QC on 29th



Introduction

Recording, slides & follow up notes

No-sales-pitch promise

Q & A

Target audience

Managing expectations

- ✓ *Don't "hope"*
- ✓ *In China, nothing is easy. Everything is possible.*





PassageMaker Sourcing Solutions

www.PSSchina.com



CHINA SOURCING
INFORMATION CENTER

www.ChinaSourcingInfo.org

China Sourcing Scams: *How bad is the problem really?*

What type of buyer is more likely to have problems?

High Risk of encountering a scam

- ✓ *Small Orders*
- ✓ *E-buyers/ Online Wholesale*
- ✓ *High value/ small size product (SD card for example)*
- ✓ *Famous Brand Electronics*
- ✓ *Novice Buyer (no PO, no audits, no due diligence...)*

**Novice Buyers have high risk of encountering problems
even if seller is not a scam**



Best Practices for Professional Buyers

Mike Bellamy
www.PSSchina.com

Truth about sourcing Famous Brands (Fashion to Electronics) online:

- ✓ Made-in-China doesn't mean Available-in-China
- ✓ Pricing/ Taxes
- ✓ Tight control of distribution
- ✓ "Factory Back Door"?

Q: Why do the scam artist target small scale foreign buyers?

A: Easy to find, easy to trick, easy to avoid.

- ✓ Lack of security measures (before, during or after)
- ✓ Assuming there is a safety net
- ✓ Seduced & forgot to ask "what if"
- ✓ Too willing to gamble



CHINA SOURCING
INFORMATION CENTER

www.ChinaSourcingInfo.org

Best Practices for Professional Buyers

Mike Bellamy
www.PSSchina.com



xinmao-trade.com



Electronics for:



2011 New Year
gift



Segway



Jet
Ski



Campagna T-Rex
tricycle



Motorcycle



ATV /
Snowmobile



TREK
bike

Hot Products

SERVICE ONLINE

SERVICE ONLINE



Time 0:00-24:00

MSN



Msn Online



Msn Online

Email



E-mail



E-mail



CHINA SOURCING
INFORMATION CENTER

www.ChinaSourcingInfo.org

Best Practices for Professional Buyers

Mike Bellamy
www.PSSchina.com

Factory Size:

Below 5,000 square meters
Room 418, Floor 4, Jin Kailong building, Fuxing northeast road, Yunlong
District, Xuzhou city, Jiangsu Province, China

Factory Location:

Number of Employees:

100 - 500 People
MSN:xinmao-trade@hotmail.com

Company Website URL:

[YaHoo: xinmao-trade@yahoo.cn](mailto:YaHoo:xinmao-trade@yahoo.cn)



Authenticated and Verified.

Click here for more third-party Authenticated and Verified information about this company.

No Chinese language

Cell phone for contact

Wrong area codes

Sloppy quote

TOO GOOD TO BE TRUE!



CHINA SOURCING
INFORMATION CENTER

www.ChinaSourcingInfo.org

Best Practices for Professional Buyers

Mike Bellamy
www.PSSchina.com

Typical Scam 1: "The Classic"

Receive the money and don't ship anything. Run away or ignore the buyer.

Typical Scam 2: "It's on the way"

Proof of shipment is easy

Typical Scam 3: "Milk the Cow"

After receipt of deposit, get the buyer to pay for "additional export fees" then don't ship and/or disappear.

Advanced Scams for 2014

Scam Case Study 1: "The Shanghai Surprise"

Hacked Email. Buyer AND Seller Surprised

Scam Case Study 2: "Zhejiang Screw job"

"Hacked Email". Buyer is the mark



CHINA SOURCING
INFORMATION CENTER

www.ChinaSourcingInfo.org

Types of Sellers

Factories (WFOE vs FIE vs Local)

Brokers/Trading Companies

Wholesalers

Retailers



Best Practices for Professional Buyers

Mike Bellamy
www.PSSchina.com

Pre-order homework

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

15 years – 300 pages – 10 videos – 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, 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



CHINA SOURCING
INFORMATION CENTER

www.ChinaSourcingInfo.org

Is my supplier legit?

Essential Tools

Legit Quality? Audit vs. Testing vs. Inspection

Audit: Two Main Kinds

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



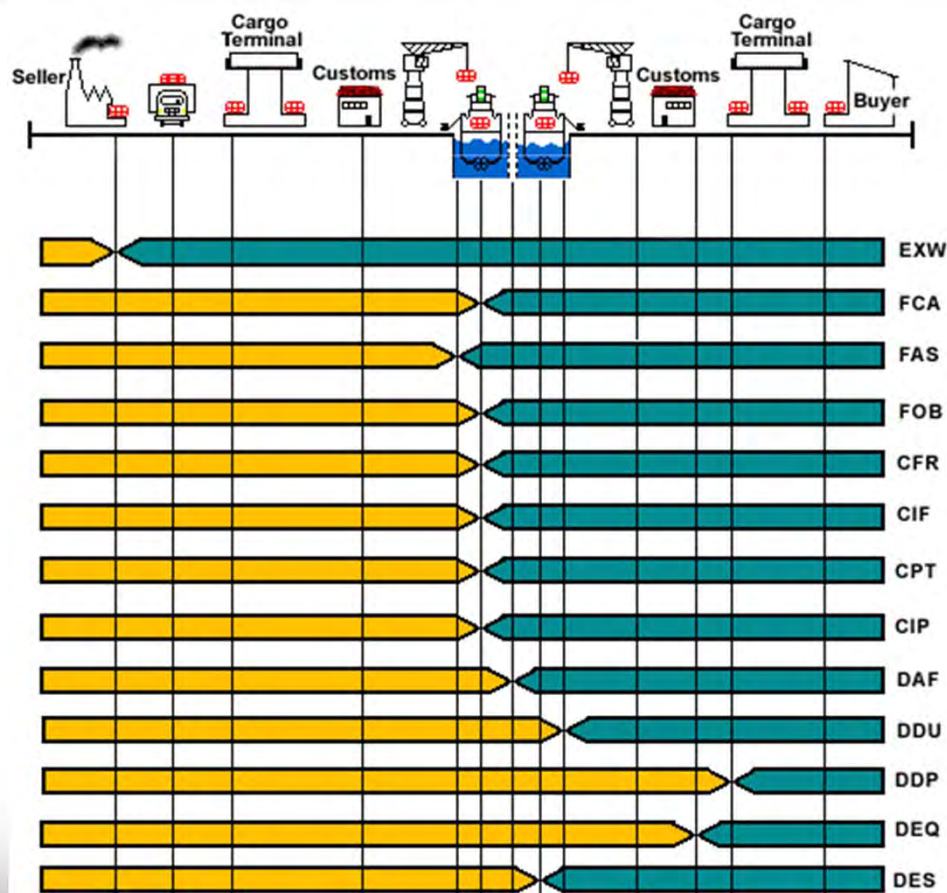
FREE Tools to help answer “is the supplier legit?”

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



Best Practices for Professional Buyers

Mike Bellamy
www.PSSchina.com



Terms of Payment
VS.
Transfer of Ownership

Dangers of ExW



CHINA SOURCING
INFORMATION CENTER

www.ChinaSourcingInfo.org

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.



Best Practices for Professional Buyers

Mike Bellamy
www.PSSchina.com

Payments & Financial Risk

Road map to better terms

"30-40-30"

Financial Exposure = Quality Exposure

(assuming you have done your due diligence)

If worried about traditional risk?

Free:

www.SupplierBlackList.com & online research

Check references

How long on Global Sources?

Affordable & essential:

Onsite 3rd party audits

Financial due diligence



CHINA SOURCING
INFORMATION CENTER

www.ChinaSourcingInfo.org

Top 10 lessons learned the hard way during my 15 years in China:

1. Use a Purchase Order! Get it chopped.
2. State lead times & penalties
3. Plan for IP protection
4. Plan for non-conforming goods
5. Know your risk as importer of record
6. Clarify ownership of tooling
7. Appropriate legal jurisdiction
8. Bi-lingual contract
9. **Payment linked to performance**
10. Written QC Plan is integrated into contract (reference: "PQM" template at www.PSSchina.com)
11. **"Same Name" on Contract, Bank Account & Factory Gate**



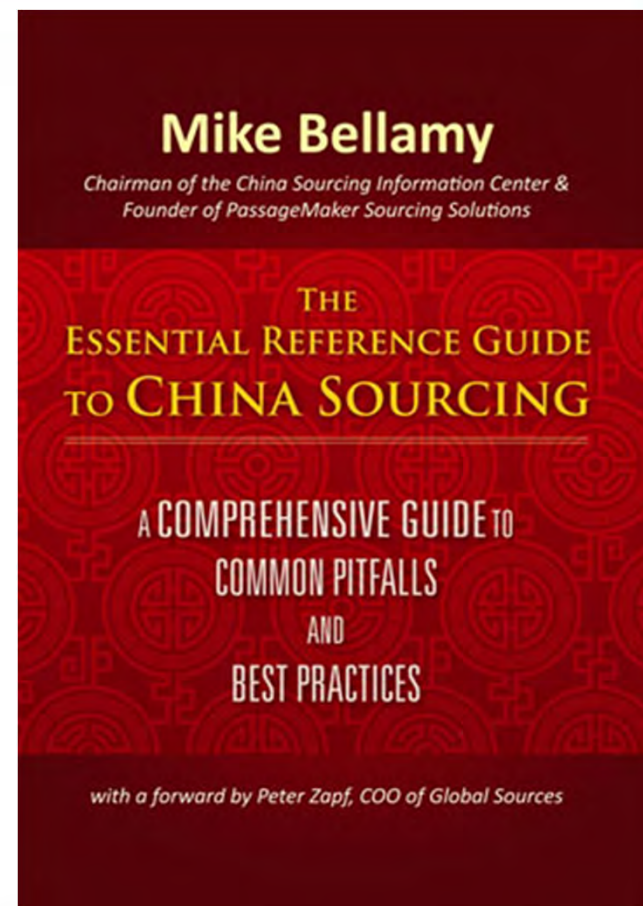
Shameless Book Plug

www.ChinaSourcingInfo.org/book



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

**\$58 USD online (or at
Amazon)**



CHINA SOURCING
INFORMATION CENTER

www.ChinaSourcingInfo.org

If take away just 3 things...

- ✓ Find the right supplier
- ✓ If you can't afford audits & inspections in China... you shouldn't be buying from China
- ✓ **Name is the Same**
(Bank account/ contract/ address)

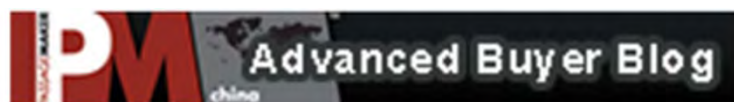
Q & A

MikeB@SourcingInfo.org



Best Practices for Professional Buyers

Mike Bellamy
CSIC & PassageMaker



www.ChinaSourcingInfo.org

www.SourcingServiceCenter.com

www.PSSchina.com

www.SupplierBlackList.com

Booth #

1H39(Oct 11-14)

7S37(Oct 19-22)

10L35(Oct 27-30)



www.ChinaSourcingInfo.org

Introduction

- ✓ Target audience
- ✓ Managing expectations

Trade show tips

Budgets

Project management

Quality control

Intellectual property

Q&A

Part 1 covered scams, supplier selection & contracts. Video recording available.



Introduction

Recording, slides & follow up notes

No-sales-pitch-promise

Q & A

Target audience

Managing expectations

- ✓ *Don't "Hope"*
- ✓ *In China, nothing is easy. Everything is possible.*





PassageMaker Sourcing Solutions

www.PSSchina.com



CHINA SOURCING
INFORMATION CENTER

www.ChinaSourcingInfo.org

Trade show tips:

Red flags:

- Wide product range

Mistakes:

- Expecting better communication after the show
- Talking price too soon
- Can you make this?

Tips:

- Ask same question multiple ways
- Be an exciting (but honest) potential customer
- Be respectful with sampling



Are you ready to source overseas?

Cutting out your local importer, middleman or distributor does get you a good unit price, but that unit price doesn't include a host of new project expenses that will affect the costs of getting your product to market.

- ✓ Samples
- ✓ Multiple overseas trips
- ✓ Product safety testing
- ✓ International shipping
- ✓ Factory auditing, inspections, due diligence and so on.

The Harsh Reality:

Focus on "all in cost of the project" not just "unit price of the product".



Best Practices for Professional Buyers

Mike Bellamy
www.PSSchina.com

Going Factory Direct

Minimum steps/Budget (in addition to the direct costs unit parts, shipping and duties.)

1. Visit the factory BEFORE you place the Purchase Order.
*Trip to China: **About 3000 USD***
*Outsourced Audit: **Less than 300***
2. Validate financial stability & reputation AFTER the above audit BEFORE place a PO.
DIY (check references, online search): **FREE**
*Outsourced Due Diligence: **Less than 500***
3. Bi-lingual Contract?
*English speaking Chinese lawyer: **Few 100 USD***
4. Samples & Prototypes + Express mail? **Project dependent**
5. Conformance testing: *Lab testing on the basis is at least a **few 100 USD**.*
6. Pre-shipment Inspect BEFORE final payment BEFORE the goods ship out of China.
*Trip to China: **About 3000 USD***
*Outsourced Audit: **Less than 300***
7. Bank Fees if you are transferring money. **15 to 50 USD** per TT depending on your bank.
8. If you (not a 3rd party) does the project management. **What is the value of your time?**

PLUS: Safety cash for emergency trip or two to China.



CHINA SOURCING
INFORMATION CENTER

www.ChinaSourcingInfo.org

Culture: Managing Expectations

No need to spend a lot of time on cultural differences

Your cultural understanding is not a pre-requisite.

Very forgiving of cultural mistakes



Establishing trust in business relationships

- ✓ Be more than a PO #
- ✓ Align the visions
- ✓ "Carrot and stick" works but must be realistic to be sustainable



Communications

Paris or Bali?

The single biggest problem in
communication is the illusion
that it **has taken place**

George Bernard Shaw



Drawing by Sorenson, © 1978 The New Yorker Magazine, Inc.

Western Buyer

Asian Supplier



CHINA SOURCING
INFORMATION CENTER

www.ChinaSourcingInfo.org

Professional Project Management 专业的项目管理

- ✓ Fixed schedule for regular updates 制定计划定期进行信息通报
- ✓ Be open about problems and solutions 坦诚公布问题及解决方案

Task 任务

Current Status 当前进度

Deadline for action item 实施项目的截止日期

Who is Responsible for Action Item 实施项目的负责人

Due date for next update 下次通报日

Date of last update received 收到最近一次通报的日

Buyer Comments 买家评价

Supplier Comments 供应商评价

Additional Notes 其他说明



Professional eMail Communications

专业的邮件沟通



Before sending an e-mail, I will check the following:
在发一封邮件之前, 我将检查如下事项:

- ✓ Are the right attachments attached?
附件是否正确?
- ✓ Are the attachments formatted with correct page breaks?
附件是否整洁?
- ✓ Has the attachment been spell checked?
附件是否检查了拼写?
- ✓ Has the email body been spell checked?
邮件是否检查了拼写?
- ✓ Is my point clear?
我的观点清晰么?
- ✓ Does my email avoid sarcasm and phrases that could be misinterpreted by the reader?
我的邮件内容是否避免了含有易被读者曲解为讽刺的语言和句子?
- ✓ Do I need any other people in the organization to give a 2nd opinion before I send?
在我发送邮件之前, 是否有需要其他人发表第2意见?
- ✓ If I am assigning a task, can this task be put in ACE rather than send via Outlook? If yes, use ACE rather than Outlook.
在分配一个任务时, 如果任务能否放到ACE而不是通过OUTLOOK, 如果可以就用ACE.
- ✓ If the task must be sent by Outlook, if I must send via Outlook,
 - is the person I want to do something in the "To" and the people that I would like to read the email but who don't need to do a task are in the "CC"?
任务接收者即邮件接收者, 抄送者只需阅读参考
 - Is my assigned task clearly stated in the email ("who is to do what and when")?
我委派的任务是否清晰的陈述了 (谁做什么, 什么时候完成)
- ✓ Review who is in the "To" and "CC" to confirm that your email does not send any sensitive information to the wrong people.
检验确认任务接收者和阅读者避免发错敏感信息
- ✓ If the people who will view your email don't speak Chinese, make sure a translation is provided of any Chinese language in the email and attachments.
如邮件接收者不懂中文, 确认附件里提供翻译的电子文档

Why are China quality issues always in the news?

- Recent and Rapid growth of Production Base
- Global Interaction made easy thanks to the Internet



Communicating QC expectations:

If you don't state exactly what you want, you will get exactly what you didn't ask for.

"give me top quality"

"everybody knows the standard"

Reference: "PQM" template at www.PSSchina.com



Testing vs. Inspection vs. Audit

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

Audit: Two Main Kinds

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



Golden Sample vs. Production Sample

(common mistake: "just give me a sample")

ISO: family of standards and guidelines for measuring quality in the manufacturing and service industries from the International Organization for Standardization (ISO).

("concrete life jackets")



Quality Control: A system that is put in place by a manufacturer to monitor and maintain quality as goods flow from raw materials (IQC) into semi-finished goods (IPQC) into finished goods ready and packaged for shipment (FQC).

QA or 3PQC: Outside party that reviews the QC system of the factory and provides testing, inspection and/or audit services

Minor vs. Major vs. Critical Defects

Critical= could hurt somebody

Major= ability to sell the product is compromised

Minor= temporarily acceptable defect



QC Fundamentals

As we advance from Concept to Production to Delivery, the cost associated with testing and fixing any problems increase exponentially.



The QC toolbox

FREE Tools

1. Do they have a Quality Manual?
“PQM” template available at www.PSSchina.com
2. Ask for references
3. Link payments to performance (30-40-30)

INEXPENSIVE Tools

3rd Party Factory Audits, Product Inspections & Lab Testing



Hallmarks of a great factory (in terms of QC):

- ✓ Traceability
- ✓ QC goals: not “met and forget”
- ✓ QC director doesn’t report to production manager
- ✓ Find problems early in the production process.
- ✓ Live and breath the ISO system



Disclaimer on China Intellectual Property

Vast majority of suppliers are honest and a pleasure to deal with.
Unfortunately in a market as massive and competitive as China, IP is often a casualty.

Common IP concerns

- ✓ Supplier turn into competitors
- ✓ Illegal use of brand and designs
- ✓ Reverse engineering
- ✓ "Midnight shifts"
- ✓ Going direct to your buyers without you



Register * Limit Exposure * Monitor * Enforce

1. **Register** IP concerns in eyes of Government, Ports & Suppliers
 - ✓ FTM vs. FTR (affordable and effective)
2. **Limit Exposure**
 - a) pre-production phase (trade shows & RFQ)
 - b) Production phase
 - ✓ Who has access? (traders? sub-suppliers?)
 - ✓ Compartmentalize (AKA "black box assembly")
 - ✓ Own the tooling
 - ✓ 30% rule
 - ✓ Why the low price?
3. **Monitor**

trade shows, tool room, stock room, show room, company website, taobao.com, brochures, dummy customer...
4. **Enforce**

demand letters, litigation & investigation



Tips for setting up the NDA/NC

- ✓ Align interests
- ✓ Be more than just a PO#
- ✓ Leverage "Face"
- ✓ Bi-lingual & simple
- ✓ Attached to each PO
- ✓ Per-agreed penalty
- ✓ Non-conforming goods



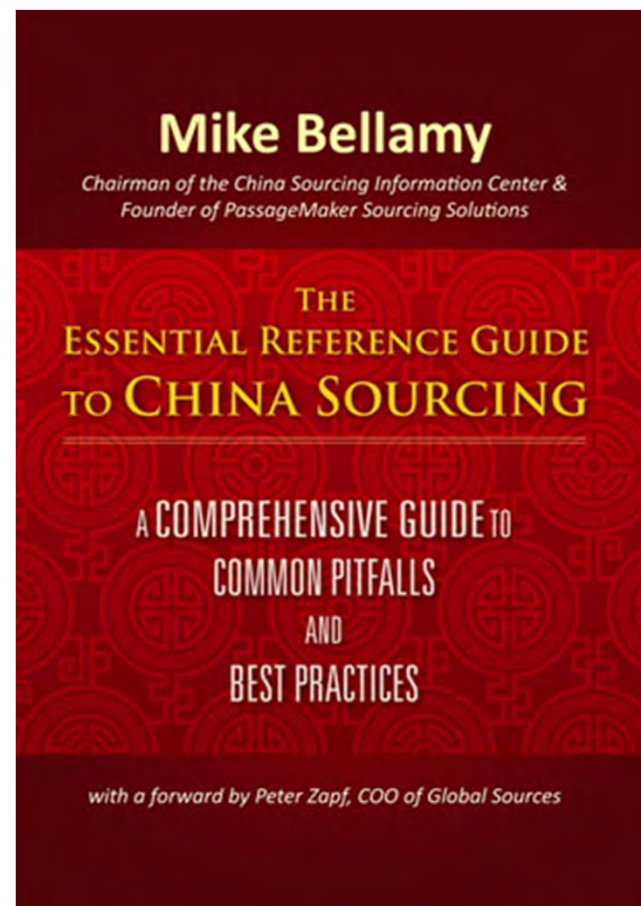
Shameless Book Plug

www.ChinaSourcingInfo.org/book



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

**\$58 USD online (or at
Amazon)**



CHINA SOURCING
INFORMATION CENTER

www.ChinaSourcingInfo.org

If take away just 3 things...

- ✓ Find the right supplier
- ✓ If you can't afford audits & inspections in China... you shouldn't be buying from China
- ✓ Name is the Same
(Bank account/ contract/ address)

Q & A

MikeB@SourcingInfo.org

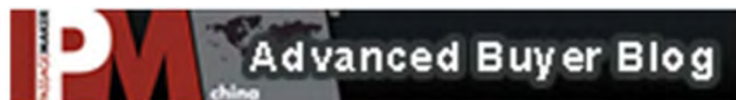




CHINA SOURCING
INFORMATION CENTER
with Mike Bellamy



CHINA SOURCING
SERVICE CENTER



[*www.ChinaSourcingInfo.org*](http://www.ChinaSourcingInfo.org)

[*www.SourcingServiceCenter.com*](http://www.SourcingServiceCenter.com)

[*www.PSSchina.com*](http://www.PSSchina.com)

[*www.SupplierBlackList.com*](http://www.SupplierBlackList.com)

Booth #

1H39(Oct 11-14)

7S37(Oct 19-22)

10L35(Oct 27-30)



CHINA SOURCING
INFORMATION CENTER

[*www.ChinaSourcingInfo.org*](http://www.ChinaSourcingInfo.org)