

### Introduction

- ✓ Target audience
- ✓ Managing expectations

### Scams

### Purchase Orders

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

### Project Management

### Q&A



## 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](http://www.PSSchina.com)



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**



## *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





# Best Practices for Professional Buyers

Mike Bellamy  
www.PSSchina.com

 **Xinmao-Trade.com**

**xinmao-trade.com**



Electronics for:



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](mailto: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**  
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## 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





Types of Sellers

Factories (WFOE vs FIE vs Local)

Brokers/Trading Companies

Wholesalers

Retailers



## 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](http://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

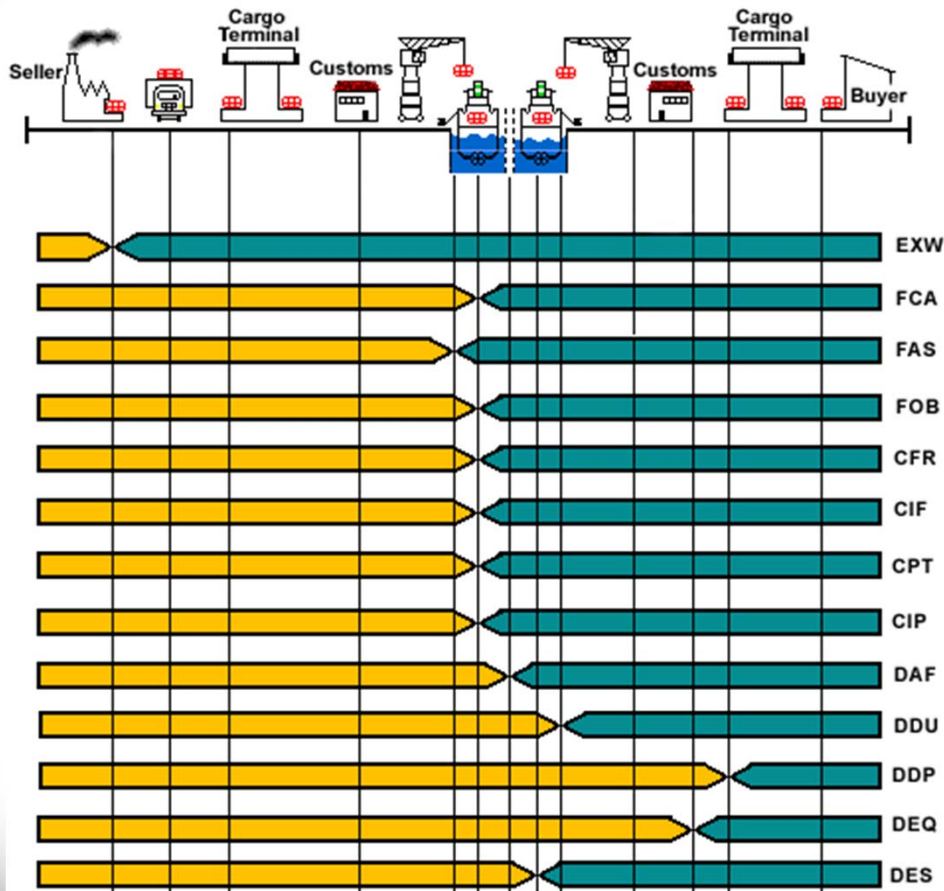
## Basic Steps

1. Define the ideal supplier's attributes  
Location, Equipment, Product Experience, Size
2. Online Research ([GlobalSources.com](http://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



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www.PSSchina.com



Terms of Payment  
VS.  
Transfer of Ownership

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.



## 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](http://www.SupplierBlackList.com) & online research

Check references

How long on Global Sources?

Affordable & essential:

Onsite 3<sup>rd</sup> party audits

Financial due diligence





## 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](http://www.PSSchina.com))
11. **"Same Name" on Contract, Bank Account & Factory Gate**



## Communications

Paris or Bali?

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

George Bernard Shaw



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

Western Buyer

Asian Supplier



### 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 2<sup>nd</sup> 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, 如果发出任务必须通过OUTLOOK,
  - is the person I want to do something is 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



## 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](http://www.PSSchina.com)
2. Ask for references
3. Link payments to performance (30-40-30)

#### INEXPENSIVE Tools

3<sup>rd</sup> 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





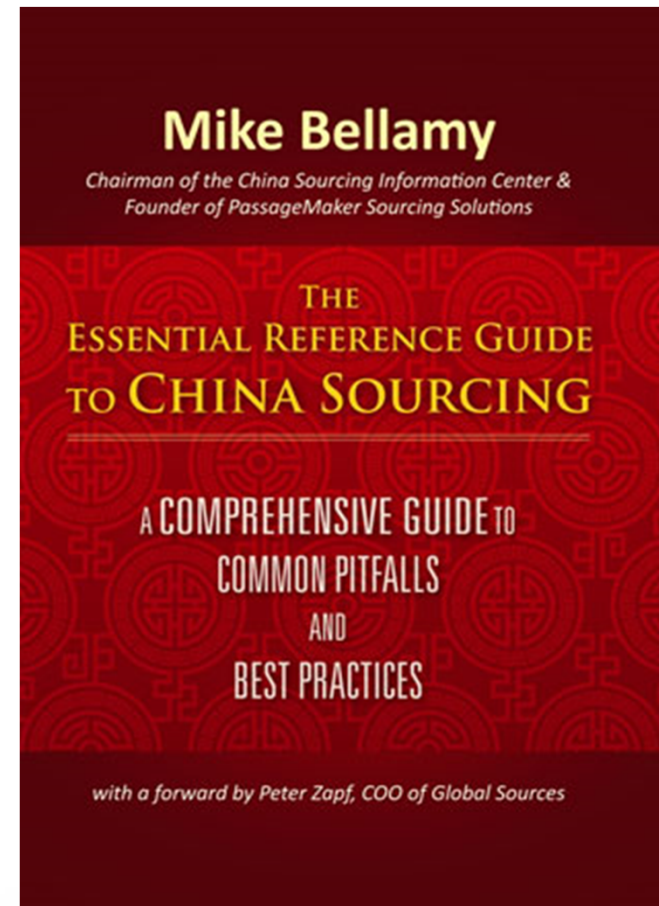
## Shameless Book Plug

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



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

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



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](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)



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