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Quality Standards in Asia: Regional Differences and Long-Term Trends

A typical assumption made by purchasing managers is that quality standards applying to products made in Asia for export are similar to those of the West. After all, no consumer wants widgets that don't work, garments with broken stitches, or electrical appliances that cause electric shocks. However, there are strong differences between the quality control standards in different countries and between purchasers, both on the demand and the supply sides.

The Buyer's Quality Requirements

Quality control standards imposed by importers on their suppliers can be broken down into two categories:

1. Safety and compliance with the importing country's regulations

The E.U. and U.S. – the two largest export markets for Asian consumer goods – have very different approaches when it comes to setting safety standards. Generally speaking, though, the E.U. tends to lead the way in enforcing stricter requirements.

Large importers, particularly retail chains, use their buying power to push the cost of testing and certification up the supply chain and have their Asian suppliers pay for it. Unfortunately, many small importers don't have the budget necessary for ensuring compliance and often rely on certification reports provided by suppliers. Needless to say, these documents are often irrelevant and/or fake, especially in China.

2. Functionality, durability, workmanship, and aesthetics

Components that are embedded in complex systems and that might cause a failure with expensive consequences are held at a very high quality standard. As a result, the type of specifications, as well as the tolerated proportion of defects, can vary greatly from one buyer to the next. By default, inspection agencies offer a control plan that corresponds to the general tolerance of supermarkets in the E.U. and the U.S. Buyers are strongly advised to adapt those settings to their own market's expectations.

In addition to end-of-line product quality inspections, a quality assurance strategy usage the proper vetting of manufacturers. When it comes to general consumer goods, however, it is the buyer's job to select what requirements each supplier has to pass – and too often they fall back on the ISO 9001 standard, which was conceived as the "bare minimum" that can be required of any organization. Unfortunately, few importers have the capability and the willingness to develop their own set of requirements.

Manufacturing Standards in China, ASEAN, and India

In South China's Pearl River Delta, the quality of established factories' products has been rising continuously for the past 30 years. Most new workshops are being set up further north along the coast, or in landlocked provinces. Buyers can benefit from lower costs in these areas, but may suffer a much higher frequency of quality and delivery problems.

In response to this, Chinese and Taiwanese producers have begun relocating to ASEAN nations such as

Vietnam, Cambodia, Laos, Myanmar, and Thailand. This is especially true in the garment and footwear industries. These companies are attracted by ASEAN's low wages and have replicated the way production is set up in China. The reduction of tariffs between China and ASEAN as a result of the China-ASEAN FTA is helping facilitate this further. However, many focus on simple products for which cost pressure is the highest. As a result, attention to quality is moderate and often insufficient.

Multinational groups have set up production facilities that can make high quality products, but local players are a mixed crowd. Buyers often complain that quality is disappointing and costs slightly higher than in China. There are two reasons for this: first, many production components have to be purchased in (and shipped from) China.

Indian factories tend to have less mature systems and processes than those in South China. However, a small minority of local manufacturers apply world-class practices, which are often found to a much lesser extent in China. Overall, quality is not India's main problem. What turns some buyers away is the high frequency of late shipments as well as a general feeling that buying there is difficult.

A Growing Trend: Buyers Helping their Suppliers Improve

Many importers have realized that relocating production to take advantage of cost savings of between 10-20 percent makes little sense. They might face severe issues with production quality or shipment delays in the new country.

On top of that, currency appreciation as well as labor cost increases might erase these savings in a few months.

We have entered a new phase in most importers' procurement strategies. Since the late 2000s, the objective of procurement offices has been to reduce the number of quality issues (which cost the buying organization money and time), reduce the cost of monitoring quality, and more generally to reduce the total cost of ownership of the products they purchase.

This trend is especially strong for importers that are specialized in a product line. They are generally much more hands-on than other operations, such as supermarket chains or mail-order companies.

Many Western companies have started to invest in improving their supply chain. More specifically, they help their suppliers improve quality and reduce costs. Here are a few examples of programs that are applied to that effect:

- Minimal involvement: training the factory's inspectors, setting up defect boards, and training engineers in problem resolution
- Average involvement: mistake-proofing operations, improving work instructions in production, and focused initiatives on sources of defects
- Heavy involvement: reorganization of the layout and processes to facilitate flow and allow for effective root cause analyses and feedback loop

The tipping point will be when a significant portion of Chinese manufacturers start looking for ideas in other industries, grow their workforces' capability to carry out improvement initiatives, and improve their processes – not only in China, but also elsewhere in Asia. 🏠

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- Extracted from "The 2015 Asian Sourcing Guide".
- Complimentary download of the full publication available from www.asiabriefing.com.