

# Quality Assurance In China: Best Practices

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

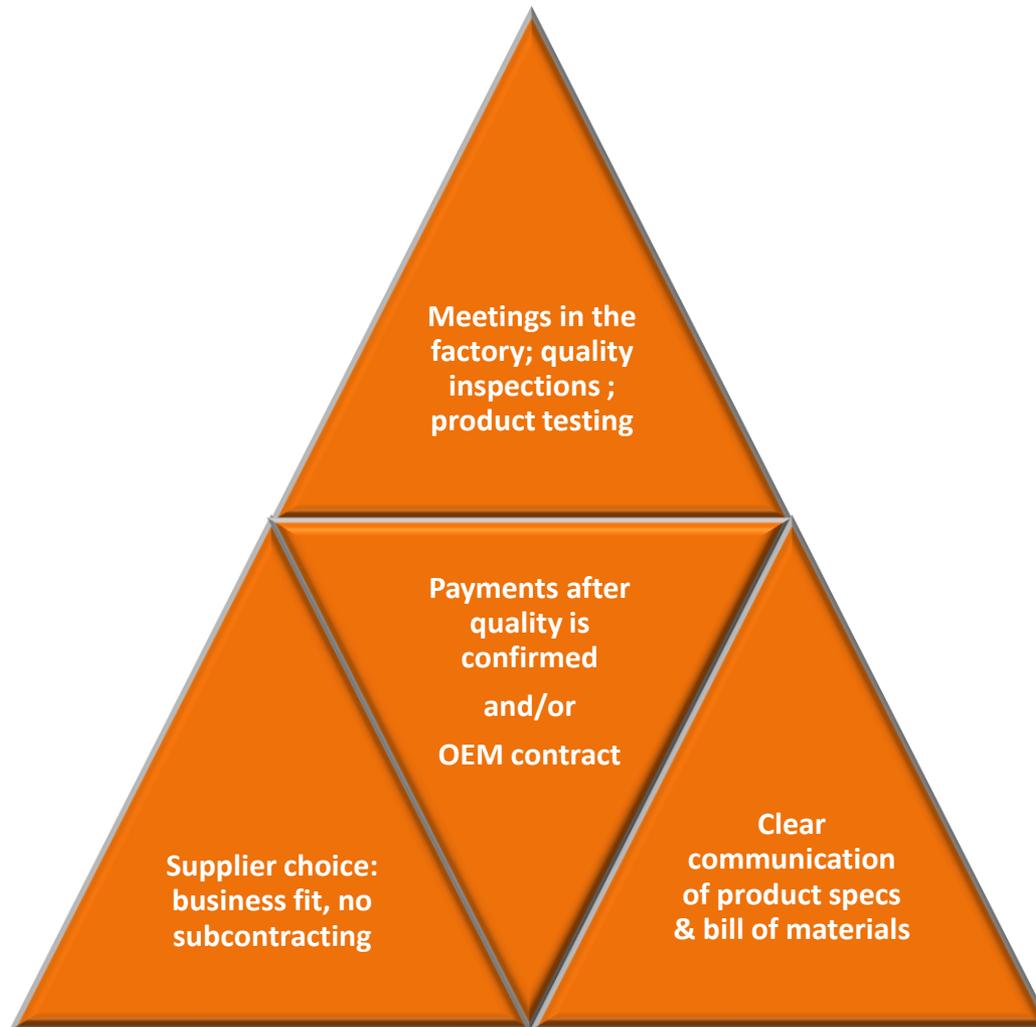
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This e-book will show you that a buyer's decisions impact quality *from the very beginning of a sourcing project*.

### The four blocks of a good quality assurance strategy:



# 1. Set realistic objectives

Outsourcing production to China and buying from a domestic wholesaler are very different. Getting a price and a sample is only the very beginning of the job.

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.

## 2. Find 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 a (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).

### 3. Define 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).

## 4. Trust but verify: the role of quality inspections

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.

## 5. Tie 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.

## 6. Managing suppliers over the long term

### **Avoid cat-and-mouse games**

The favorite strategy of Chinese factories that don't want to correct problems is... to wait. And wait. Until the importer (who needs to deliver his own customers) has to let them ship.

So it is essential to catch problems as early as possible, and to push for a solution within a few days.

You should also try to understand the real source of a **standstill**, and to help the factory. It is usually related either to their internal priorities, or to previously negotiated terms that they consider unfair/risky.

### **Do not ever negotiate your quality standard**

If the quality of your products deteriorates, your business will suffer. In the worst case, your products cannot be sold and you lose a key customer.

Why would that happen? Let's say a production run is already late and you notice that quality is less than desirable. Asking the supplier to re-work the products might take weeks. You take a calculated risk and you accept the goods "exceptionally". Count on the manufacturer to remember it. In the future, they will expect you to settle for substandard quality.

### **Have regular meetings in the factory**

Day-to-day decisions are taken by middle managers. If they have never seen you, they will take care of other (louder) customers.

If you cannot send your own staff, a third-party inspector can help keeping them on their toes.

*Caution:* do not accept red-carpet treatments when you come to a factory. Feeling personally obliged towards your supplier is a trap to avoid.

### **Try to help the factories that listen to suggestions**

If you have experienced engineers on your team, help your suppliers improve their processes. Only a few manufacturers are open to it, unfortunately.

### **Drop the least reliable suppliers regularly**

You should stop working with the suppliers who have caused you the most trouble. They will keep creating more problems than the others.

Improving your supplier pool takes time and effort. If you need a reliable source, you will need to find factories that limit their growth and invest in improving their current organization. Unfortunately, they are few and far between.

## 7. Bonus: 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 (several companies offer inexpensive background 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—too bad for indirect buyers.

### Should we use a contract?

China is said to have no law, but it 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 an international lawyer for more information.

## 8. Contact me

I love getting feedback and questions from readers.

Don't hesitate to contact me!

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