

15 WAYS TO AVOID PROBLEMS WITH YOUR SUPPLIERS

*How to structure your quality assurance,
communication, and buying processes
when importing from China*

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15 WAYS TO AVOID PROBLEMS

Problems with your Chinese suppliers can quickly lead to a disruption of your business. Here is a list of 15 strategies to avoid this situation:

Goal	Quality assurance	Communication	Buying process
1- Preventing problems	Qualify the manufacturer	Keep written records	Beware of subcontracting
	Visit the factory often	Use P-P samples wisely	Protect your IP
2- Solving problems as soon as they appear	Check the components	Use email wisely	Don't pay too early
	Inspect early in the cycle	Be polite at all time	Use enforceable contracts
3- Limiting the impact of problems	Sort defects out	Never say "never again"	Have a backup ready

The format of this table was inspired by a framework called the Haddon Matrix (commonly use in the field of injury prevention).

PREVENTING PROBLEMS

1. Qualify the manufacturer

Many importers select a supplier on the basis of a sample, a price, and a personal “feeling”. This is a mistake, because these attributes are not indicative of good manufacturing skills.

Potential suppliers should go through a rigorous screening process. The longer you expect to work with them, the more you should invest at this stage.

- First you should look for suppliers that will be a good fit for you: the right size, the right type of customers, the right focus (low cost vs. high quality), sufficient development capabilities, etc.
- Second, you should check what they claim, by running background checks on their company and calling some of their long-time customers.
- Third, you should visit the factory and/or pay a third-party quality assurance (QA) firm for a quality audit.

At the end of this process, if all runs smoothly, you will have one best candidate—to use for a trial order—and a few others to keep aside (see part 14).

Even if you place one-shot orders, you should spend a little time to check if a potential supplier is legitimate and experienced.

2. Beware of subcontracting

You might be developing a product with a supplier who does not know where to manufacture it yet. They will not tell you about it, of course. But it is your interest to ensure that it does not happen.

Even if you have confirmed that you work directly with a manufacturer (with a background check), your order might be subcontracted to a small workshop—either because they run out of capacity, or because they want to widen their profit margin. When this happens, you run high chances of a quality disaster.

So, what can you do to prevent it?

- Make it very clear to your supplier that production is to take place in the approved factory only, unless they get your written authorization to do otherwise for a particular order. Get a written commitment and/or place this term on your purchase orders.
- Observe production if you can be on site, especially for the first run. You can also send an inspector who will report on the location of production (see point 8).
- Try to avoid your supplier’s peak season, as well as the period around Chinese New Year.

PREVENTING PROBLEMS (continued)

3. Keep written records of all promises

Few Chinese salespeople will take the time to clarify what exactly you are paying for. They are often reluctant to do it in a detailed manner. So this is something either you must do.

Here are a few tips to do this the right way:

- When you have a meeting or a phone conversation, take notes of all the important points. Then send it by email for confirmation.
- Ask many questions about topics you are not familiar with. If you do not know what type of packaging is appropriate, ask your supplier for suggestions and photos of similar orders.
- Before you issue the order, organize your notes in a logical manner (materials, product specs, prices, payment terms, timing...). Put it all in one document and ask your supplier's legal representative to put their stamp on it.

Once the salesperson gets your document, she will (hopefully) translate it for the factory's technicians. Use as many photos as possible, to minimize the risk of misunderstandings.

Your quality standard should never be negotiable. If you accept substandard quality once, the factory will remember it and will see it as your "real" standard!

4. How to use pre-production samples

Descriptions and photos only go so far. You should request a perfect sample before production starts.

How to communicate during development?

- When you receive development samples that are not satisfactory, take clear photos of the problems. Then place them in a document along with arrows pointing at the problems. Even better, write "✓" or "✗". This way, any factory technician can understand your meaning.
- Once you approve a perfect sample, make sure the factory has also kept at least one for their reference, and then send one to third-party inspectors if necessary.

How to set the standard for "touch & feel"?

You should try to define your quality standard as precisely as possible in written (see point 3), including photos of defects if possible.

But the touch & feel of the product is often difficult to describe. The solution is to write "production should be conform to the approved reference sample, including regarding the finishing touch & feel", and to get a written confirmation of this point before you authorize production.

PREVENTING PROBLEMS (continued)

5. Visit the factory frequently

In China, face-to-face meetings are much more productive than emails or phone calls, especially if you are in front of decision-makers.

You are probably in contact with a salesperson, who has a limited influence in the organization. If you can, come regularly to China and talk to the middle managers (who allocate capacity and set priorities) and/or the technicians working on your orders.

You should set the right tone from the beginning:

- Show that you care about your supplier. Ask questions to understand their situation, and try to take it into account in your decisions. This will help you be categorized as a “good buyer”. More and more Chinese suppliers have realized that they need to cultivate a certain number of good buyers and treat them well. It does not take much to achieve this status.
- Do not let the supplier make you feel obliged. Many purchasers get invited to lavish dinners, massage sessions, karaoke nights and more. This is a trap! If you accept anything “over the top”, you will not be able to do business in a normal way (e.g. sending an inspector, enforcing penalties for late shipment...).

6. Don't put all your IP in one company's hands

Importers are often afraid of a Chinese manufacturer reverse-engineering and copying their products. But most cases of IP infringement involve the original supplier himself. It is not surprising, since they already went through the hard work of product development and they have a sense of their buyer's business model.

If you do not want your supplier to turn into your competitor, you should take a few precautions.

First, be aware of common legal strategies. You should register your trademark in China before production starts. And you can have your supplier sign a non-disclosure/non-use/non-circumvention agreement. (See point 12).

Second, use non-legal strategies. If you are ready to pay a little more to reduce IP risks, you should structure your supply chain yourself and place a firewall between its major elements:

- Find and qualify the components suppliers,
- Distribute the processing across several factories (located in different cities),
- Give the final step (assembly & packing) to a manufacturer that does not know the other factories involved.

SOLVING PROBLEMS FAST

7. Check components before final assembly starts

There are two major risks with materials and components:

1. The factory might deliberately purchase substandard components to save money;
2. Chinese factories seldom check the quality of the components delivered by their own suppliers. The main reason is that personal connections are often involved, and the act of checking quality would hurt some feelings.

It means your product might not be up to specs, or it might contain unsafe (and prohibited) substances.

What can importers do to avoid these risks?

- If possible, find the sub-suppliers yourself. The safest method is to place orders directly with them, but it will take you some time and will certainly be more expensive than letting your supplier source the components by himself.
- Another solution is to catch it early by sending an inspector when the main materials are delivered, and before production starts. If you control this point after the components are embedded in the final product, it might be too late.

8. Check quality early in the manufacturing cycle

If you wait until the whole production is completed and you find quality issues at that point, it might be too late. Sometimes *re-working* the defective goods takes weeks. And they might all need to be *reproduced*, which takes even longer.

So you should send an inspector as soon as some finished products get off the lines. This way, issues are noticed early, the factory can implement corrective actions, and you can adapt your planning.

The inspector will use the specifications you have written (see point 3) as a checklist, and if possible an approved sample (see point 4) for reference.

An inspection during production is also an easy way to draw a few samples from production and to send them to a testing laboratory.

The most important is to perform quality inspections on *every* production batch. Chinese factories are famous for cheapening the product when the buyer starts feeling more confident.

If you can only perform one quality check, do it when all is packed (it is a “final random inspection”) because the factory cannot hide any defective goods.

SOLVING PROBLEMS FAST (continued)

9. Use email wisely

So you, or your inspector, has found a problem. What should you do?

If you are there yourself, everything is easier. You can give them immediate feedback about what is acceptable and what is not (and you should take photos and write a note about it).

If you are not on site, you should send emails to convey information (photos, lists of problems...) and to ask for a response. Then you can call your contact person and ask them when they will respond.

Do not send and re-send long emails. If you apply too much pressure, you will probably not get a response to the point. Similarly, be careful not to place blame on any particular person.

The natural tendency of Chinese suppliers will be to justify themselves and find an excuse (which is often a “white lie”). But the most important is to get them to formulate their next corrective actions and to commit to a time frame.

If the factory does not respect something they promised (see points 3 & 4), you are entitled to call for a re-inspection. That extra cost can be re-invoiced to your supplier. It is usual practice.

10. Be polite at all time

Some buyers are disrespectful towards their Chinese suppliers, particularly when problems pop up. It is very ineffective. Be assertive, but be polite.

You should also avoid asking tough questions in a direct manner. I remember one of my clients who, after being shown a factory’s mistakes, placed some samples on a table and asked “why did this happen?”, “didn’t you control the inputs, as you promised us?”, “why didn’t the line operators catch it?”, and so on. Big mistake. My client alienated all the key people working on his project!

In such cases, the supplier “quits”. He might not walk out of the door, but he shuts down and waits for the end of the meeting. Much worse, he will not give the same attention and the same priority to your orders any more, because you personally offended him.

If the factory is clearly at fault, you can request corrective actions and check their progress. Business is business, and you should defend your interests. But keep in mind that Chinese people tend to mix professional and personal relationships.

Note: more and more exporters have gotten used to foreign buyers’ behaviors and don’t get offended very easily.

SOLVING PROBLEMS FAST (continued)

11. Release payments after milestones are reached

The main payment methods are “TT” and “LC”.

- Payments by bank wire (TT) usually involve a 30% down payment before components are ordered, and the rest is paid after shipment. The most important is that the final payment takes place after product quality was confirmed.
- Payments by letter of credit (LC) are more complex but more protective of the buyer. You should include a “certificate of quality control by [your nominated inspection firm]” among the documents to be provided by the supplier.

Payment terms are customized to each transaction. For example, a payment before development, for opening special molds, is common.

However, the principle is that *you should keep some leverage in your hands as long as possible.*

In practical terms, this means you owe some money to your supplier until shipment. This way, they will listen to your requests.

A couple more tips about payments:

- Never transfer money to a private account;
- If the account name is different from your supplier name, ask for a written explanation.

12. Sign an enforceable contract

Your purchase order is not a contract. If you want a contract (also called “OEM agreement”) that you can enforce in a Chinese court of law or in an arbitration body, it should be drafted by a specialized lawyer.

Most of the terms are fairly standard, but they should be customized to your situation:

- The written description of the product (see point 3) will be attached in appendix;
- Subcontracting (see point 2) can be forbidden;
- Payment terms (see point 11) can be formalized;
- IP non disclosure (see point 6) can be requested.

The major benefit of having a contract is the leverage it gives you in front of your supplier. This is a great tool to avoid the common situation where the supplier waits until the customer has no choice but authorize shipment to deliver to his own customers.

Of course, clarifying your product requirements and getting your supplier’s stamp on the contract has to be done before you wire a deposit (or open an LC).

Drafting a Chinese contract is not cheap, but it is usually a one-time fee. It should be structured so that only the exhibits (product specs, purchase order...) need to be changed from order to order.

REDUCING THE IMPACT OF PROBLEMS

13. Sort defective goods with a 100% check

Let's say you found that 40% of production samples are defective. At this point, you have three options:

1. Cancel the order and lose the down payment (for TT payments);
2. Count on the factory to do the right thing: sort out and rework/reproduce defective goods;
3. Take the matter in your own hands and have third-party inspectors do the sorting, and later monitor the repairing process.

If you are in a hurry and if you cannot count on the manufacturer to do a good job—or on the intermediary to transmit your instructions clearly—there is one solution: bring in several inspectors to check 100% of production.

Then you will know precisely what can be shipped immediately, what can be repaired, and what cannot be repaired.

This solution is generally much more expensive than a random inspection, though. It is only a solution of last resort.

14. Line up a backup factory

Some regular suppliers will prove to be untrustworthy: drop them as soon as possible because they will probably do it again. In this case, you will need a backup factory.

If you followed the recommendations of point 1, you have studied several suppliers in depth. These data are very valuable, because down the road you might need some of these “second choice” factories.

For important projects (e.g. if you pre-sold the goods to an important customer of yours), you should go one step further—by working on product development with two factories. Depending on their performances, you will select one of them. And the other will be ready to “hit the ground running” if necessary.

Similarly, if you keep re-ordering the same products, you will need a safety stock. How much exactly? It depends on the time it will take you to launch production in another factory. If you have no backup solution and if it takes 6 months to bring a new manufacturer up to speed, you will need a lot of stock... Or maybe a good manufacturer in your own country.

REDUCING THE IMPACT OF PROBLEMS (continued)

15. Never say never again

Most Chinese factories have a hard time implementing a good quality system and then following it. A good production manager can be the difference between satisfactory shipments and late deliveries of substandard products. Do not draw definitive conclusions about a supplier.

If you experience quality issues or delays, it makes sense to stop working with that factory. But don't burn the bridges. Don't cancel orders or refuse payments simply to "give them a lesson".

There are 2 reasons why you should care about your image:

1. If you purchase only a certain type of product, chances are that your suppliers know each other. They share the names of "customers to avoid". Don't be on that list!
2. When your best suppliers raise their prices above what you can afford to pay, or when their reliability suddenly deteriorates, you might be happy to work again with an old supplier.

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