

# *Sourcing from China: Online and Offline*

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- How the Internet is changing product sourcing
- What can be done online?
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- Takeaways

# China Overview

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- What makes China low-cost?
  - Labor rates
  - Commodity supply
  - National focus
  - Access to low-cost capital
  - Dollar-peg
  - Lax regulatory environment



# China Overview

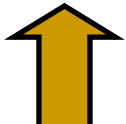
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- 2003: US Imported \$163 Billion from China
- 2004: US Imported \$200 Billion from China



# China Overview

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- China makes just about everything
- Quality improving
- Capabilities 



# Internet is Changing Sourcing

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- Websites like Alibaba and Global Sources make it easier for buyers and supplier to connect
- What does that mean for the industry?

# Internet is Changing Sourcing

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- Middlemen like trading companies and distributors are getting squeezed
- Buyers are discovering the real "China price"
- Suppliers are growing their sales and marketing teams

# What can be done online?

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- Search efficiently for suppliers
- Speak directly with factories and receive price quotes
  - Become an astute buyer
- Request samples
- Negotiate

# What can't be done online?

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- Find all suitable suppliers
  - Companies on the web are the best marketers, not necessarily the best suppliers
  - Industry contacts, trade shows, printed directories, associations and local markets also good sources
- Conduct due diligence
  - Very important to visit suppliers
- Face-to-face meetings
  - Important for both parties to build trust
  - Important for product development
- Quality control

# Sourcing Pitfalls and Challenges

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- #1 Problem: Communication
  - Language differences
  - Cultural differences
- Underbidding
  - Supplier underbids to win the business, then raises prices prior to delivery
- Over-promises
  - Exaggeration of capabilities and capacity
- Substitution of inferior goods and materials

# Sourcing Pitfalls and Challenges

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- Protecting intellectual property
- Quality control
  - Pre-shipment inspections not adequate – need to perform QC from raw material purchases all the way through production
  - Problems can occur even after several flawless shipments
- Short-term focus
  - Suppliers maximize short-term profits at the expense of long-term customer relationships

# Why Hire a Sourcing Company

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- Focus on your core competencies
- Leverage sourcing experience and local knowledge
- Achieve the best results in the shortest amount of time
- Avoid headaches, heart attack, and costly mistakes

# Choosing a Sourcing Company

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- People on the ground in China and the US
  - A mix of Western and Chinese staff leads to the most effective communication with suppliers
  - A US office will allow easier communication, face-to-face visits, better understanding of your needs
- Experience in your product niche
- Allows you to visit factories and stay involved in the process
- Ask for references

# Takeaways

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- Use the Internet to familiarize yourself with suppliers
  - Learn the “China price”
  - Become an astute buyer
- Find the right sourcing company to:
  - Conduct a complete supplier search
  - Visit suppliers and conduct due diligence
  - Make recommendations
  - Communicate effectively
  - Manage production
  - Assure quality
  - Coordinate logistics

# Contacts

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