



Sourcing, Purchasing and Quality management

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History of manufacturing in China

- All wealth was destroyed in 1949
- Manufacturing after that was done to provide for the peoples needs, i.e. state owned factories making tractors, tools, machinery, TV's, etc
- Export manufacturing started to gather steam after Deng Xiao Ping opened it up after 1978
- In 1998 private companies employed 54% of work force. For the first time, SOE's were in second place

Can companies succeed in China?

- Many companies use sourcing product as a springboard to market entry
- Canadian companies who have had success in sourcing in China did so by being prepared and spending money and time to prepare and maintain the business
- To sell local, you must think local- what applies in Canada may not be the case in China

The 7 deadly sins of Chinese factories

1. Short term focus

- Most exporters are focused on surviving, and if possible on getting enough for the boss to get a new car and a mistress. Most are “neuveview riche” and need to demonstrate their wealth.
- An aspect of Chinese culture pushes every one to focus on the short term. It makes it extremely hard for companies to sustain a long-term investment aiming at improving the organization.

2. No pride of workmanship

- They are in business for money. Few manufacturers in China care about a nice workmanship, a new design, or a defect-free production run.
- It is very frustrating to explain to factory technicians that products *must* look better, and to realize that people nod politely (if at all) and actually don't care. All they want to know is “what is the absolute lowest effort we can make?” Not a great customer retention strategy...

3. Focus on “making production”

- Go inside a factory building, and you will see everyone trying to get the products out of the door. In 95% of cases, the shop floor is an absolute chaos.
- The problem is, no one wants to stop the line when they notice bad quality, since they are paid by the number of pieces they make. As long as this attitude subsists, quality will be inconsistent.

4. No respect of workers

- Ten years ago, it seemed like the Chinese workforce was endless. Unskilled workers were easily disposable. Fear was an effective motivator (“follow the rules, or you are out”).
- The problem is, the situation has changed much faster than managerial methods. Training the operators and retaining them should become one of the top objectives.

5. Compartmentalization of activities

- ❑ It is very common for factories to prepare prototypes in one place, and to produce the corresponding order in another floor (or to subcontract it to a different company). But development, engineering, and production should work hand in hand.
- ❑ Young and aggressive salespeople who say ‘yes’ to all requests, in their search for new orders. In the end, customers are disappointed and look for another source.

6. No analytical accounting

- To reduce costs, it is important to know where they come from. Not only don't most Chinese companies use analytical accounting tools, but their tax evasion tactics often deprive them of any accurate accounting!
- Most have two sets of books
- They have no idea how much non-quality (rework, re-order of components, discounts, lost customers) costs them, for example. So why make an effort?

7. No interest in best practices

- ❑ Most factory bosses have copied the way another manufacturer — often a previous employer — was organized. To them, the way to make money is to grow up, while keeping costs down... and occasionally screwing a few customers.
- ❑ In many cases, they are usually not interested in running experiments or purchasing software/machinery to improve their organization. There is this lack of curiosity in new methods.

How are Westerners perceived

- Polite and well organized but weak
- If trust is given too quickly you can be viewed as an idiot
- Want to make a quick deal
- Well respected if they stand their ground
- Westerners consider China just a cheap labour source and this does not sit well

Yes and No

- A firm yes without a lot of discussion **does not mean** “yes we understand and now we can execute the plan”
- Yes means you can get to the next level but make sure that any dealings are fully documented and painstakingly reviewed so that they understand what they have agreed to
- Rarely will they say “no”, but...

Here is how they say no without saying it...

- We will consider this request
- You have made an interesting proposal and we need to digest it
- This is possible under the right conditions
- We need to study this further
- Or..
- “We cannot accept this”, which means change it slightly and maybe we can and give some face while you are at it

The process

- Sourcing – identify potential vendors
- Qualify vendors in advance of the RFQ
- Negotiate the deal
- Purchase products, make contracts, expedite orders
- Quality management both in-process and final inspection
- Shipping
- Goods are received by you

Before you start sourcing

- ✓ Understand a price target for your widget based on local conditions and technology levels
- ✓ Determine optimum shipping quantities, packaging requirements, special loading details, etc
- ✓ Make sure that your drawings have all details shown clearly. Highlight all CTQ dimensions and processes
- ✓ Include all relevant spec sheets with the RFQ rather than just referring to a standard

And finally...

- Do you understand your product and its complexities?
- If you don't , neither will they

Sourcing

Locate and identify suppliers

- Trade shows
- Word of mouth
- Canadian Trade offices
- Sourcing consultants
- Chinese governments – CCPIT
- Avoid the internet searches – Alibaba, etc

Identifying a suitable vendor

Audit and qualify

- Review the suppliers facilities
- Review quality system
- Do due diligence on their finances
- Review area for regional issues – power and manpower, etc

Supplier first impressions- observations

- Visit the factory with your own translator that can speak in technical terms. Spend as much time as needed based on the value and criticality of the part
- Are they busy? Do they make similar parts?
- How many floor inspectors do they have?
- Does each machine centre have drawings and an operator process?
- Are the machinists gages bearing a calibration sticker? Do they use these?

- Do their employees have uniforms, safety clothing items?
- Do they look happy?
- Look at the receiving area, do the raw materials have certs, is there a quarantine area?
- Look in their scrap and garbage area. Are there a lot of scrap parts?
- Walk through their final inspection area, are they 100% inspecting or doing an AQL lot check?
- If you are ok, then lets move ahead

Supplier Qualification Process

- Inspection, testing and certification
- Plant layout, equipment
- Manufacturing processes
- Sub-contractors and raw materials
- Final Inspection, staging and shipping
- Suppliers financial health

Inspection, testing and certifications

- ISO – do they have this? If not it is not as important as them having a plan and “doing what they say and saying what they do”
- In process inspection- what is their procedure and do they keep records? Can you see objective evidence of this in your walkthrough?
- What is their test facility like? Even if they have good equipment, do they know how to use it? Calibration stickers?

Plant layout and equipment

- Good flow?
- Is the equipment in good working order and well maintained, regardless of its age?
- Are they automated in key areas or can you see bottlenecks where certain operations are manually done in lieu of better technology
- Is the floor clean?

Manufacturing Processes

- Can they provide a control plan and do they understand your product and how to make it
- Based on your CTQ's can they demonstrate SPC systems that isolate substandard production?
- Do they have a comprehensive FMEA response or a good handle on cause and corrective action response?
- Does their workforce demonstrate a collective passion to make good parts?

Sub-contractors and raw materials

- What is their procedure to verify incoming raw material (i.e. material cert, C of C, etc)
- Do they do any random testing on incoming products
- Check out their sub contractors or suppliers of sub components. Make sure they buy from consistent sources that you have approved.

Final Inspection, staging and shipping

- ❑ Do they inspect 100% or do they do it to an AQL level?
- ❑ Is their packaging in line with your requirement? Did you even give them an export requirement for packaging?
- ❑ Is this area enclosed or does it have wind and dust blowing through?
- ❑ Do they load containers there or do they ship to the port and they stuff them?
- ❑ Who does the QA manager answer to?

Suppliers financial health

- Do they have a good supply or raw materials on hand?
- Are they paying their employees on a regular basis?
- What is their payment record to raw material or sub contractors? Will they give you a few credit references?
- Do financial due diligence checks.

Purchasing

- Pricing and adjustment triggers
- 3rd party inspection
- Rules on changing subcontractors and material suppliers

Pricing and adjustment triggers

- Don't be greedy, make sure the vendor is making money because there is a "darkside" if they are forced to cut corners to make up for their poor costing. Know your target going in.
- Put in price adjustment triggers based on material costs, tax rebates and currency fluxuation. Adjustments need to be on a pass through basis for the term of the deal.

3rd Party inspection

- Best route is for your own local people on the ground doing in process and final inspection and are also your eyes and ears at your vendors plant
- Next best is to hire your a reputable 3rd party inspection firm
- Create an audit checklist of critical checks for final inspection
- Pay your inspector well or your supplier will

Rules on changing sub contractors and material suppliers

- ❑ Lock into process sub contractors for things like plating and make sure they do not change unless samples are submitted and signed off by you
- ❑ Raw material is the same, make sure that this is traceable and paperwork is available
- ❑ Unless you say something, your supplier will think he has a free hand to change. Keep control

Some final thoughts

- Be patient as new vendors require a lot of “hand holding” at the start
- The more time and resources you invest, the better the outcome
- Manage your vendor and check and verify as this shows you are watching and they respect this
- And always remember – in China, nothing is impossible and everything is difficult.

Thank you
谢谢!

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