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Features challenges, opportunities, and takeaways for your business

10 Lessons Learned After 30 Years in China

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Introduction

In the late 80s I arrived in Shanghai with a backpack. Reagan was in the White house, the Berlin Wall came down, Nintendo launched the Gameboy, and Billy Ocean topped Billboard Charts. China's awakening was just beginning. My dreams, like many entrepreneurs, had no boundaries.

I started out in a factory. In the early days it was making point of sales terminals and box printers for American Express to manage their money order float more efficiently, as well as card readers for IBM copiers and in-vehicle bases for tablets which your friendly UPS man has you sign when he delivers a package. Three decades later, we continue to get things made – to meet goals for on time delivery, quality, and price – accelerating business for clients around the world.

The Challenge

Many assume that China's maturing manufacturing base has made working with China easier. "Everybody is in China… it can't be that tough, right?" China's role as the world's manufacturer is evolving.

What Has Changed

In the past, ROI was driven by low cost production, some of which has left China for Southeast Asia. Remaining industries are in transition and fuelled by surging demand from China's middle class of 340 million. In November of 2016, online retailer Alibaba sold US $18 billion in just one day. By 2020, The World Economic Forum estimates consumption in China will top US $6.5 trillion—more than Germany, France, and the UK combined.

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What Has Not Changed

Many of the challenges of 30 years ago are still true today. Decade after decade, clients continue to come to us—bruised from unsuccessful China initiatives—without a viable product to sell even after attempting two or more rounds of sampling and/or production. Each cycle is expensive and postpones revenue.

The Opportunity

Today a skilled manufacturing workforce, expansive infrastructure, maturing supply chains, and huge local market justify China as an ideal base for Asian operations.

The Bottom Line

There are ten lessons in this eBook; there are hundreds more. Mistakes are costly. Find a street-smart partner who can help you navigate China's many nuances, especially those identified here. You will shorten the path to revenue and build a respected brand in China for decades to come.

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Compare Costs

Before stepping foot in China, what does the status quo cost? What will alternatives cost?

Example: A maker of components for propane tanks was considering outsourcing production to China to cut costs. The client asked us to perform a study. We discovered setup, tooling, taxes, and transport costs outweighed the simple solution of expanding production in their home country. We also explored savings by moving further inland, but we found that for every 100 miles travelled in from the coast, management experience regressed by 10 years. Costs related to oversight increase proportionally.

The bottom line: If labour and overhead savings cannot offset additional shipping costs and then some, the product is not a good candidate for offshoring. Know when to say no, and those with China experience can help you make numbers-driven decisions.

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Enhance Communication

It's always humbling what gets lost in translation. False assumptions nip budding relationships, resulting in missed expectations.

Example: Prior to engaging with us, one client was growing increasingly frustrated that the early momentum with a supplier was fizzling fast…resulting in unreturned phone calls and emails. Our client had product development lead times to meet and Kickstarter investor expectations to manage. With a unique consumer electronic product for the medical industry – the client was concerned about losing their first-mover advantage. They were burning cash without much to show for their efforts.

The bottom line: Explain to your partner what you want, and then ask what you said be explained back to you, whether it be with your initial RFP, day-to-day meetings where action items are identified, or training sessions. Works great with kids and suppliers alike.

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Managing Contracts and Expectations

In the West, a contract defines the rules of engagement over the lifecycle of a deal; vs. in the East, it often means you have reached a broad understanding of how to proceed.

Example: One client came to us frustrated with contract terms being continuously re-visited, re-written, and re-negotiated—or simply ignored. It is a common business practice in China for pragmatism to override rules. What was not understood at the beginning was causing chronic frustrations.

The bottom line: Don't overthink the ink. Chinese often focus on winning the relationship first, and sorting out details later. An advocate on your behalf who knows the culture and the ebbs and flows of successful relationships and agreements can save you headaches. The relationship carries more weight than the contract.

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Prioritize Process vs. Products

While it may seem logical to award business to a supplier who makes a product just like yours, it is a double-edged sword.

Example: Prior to engaging with us, one client in the consumer electronics industry, lured by the promise of high-quality and speed to market, awarded a job to a supplier with a full portfolio of similar products. Within weeks the client's products were added not only to the supplier's catalogue but also to the catalogues of others around the globe.

The bottom line: Protect your IP. Split up production to best in class suppliers. Today our client separates production by outsourcing key components to different suppliers with deep expertise in specific processes: injection moulding with one, cable assemblies with another, and importing key proprietary components. We then coordinate final assembly with yet another supplier unfamiliar with the client's market and without the marketing muscle to become a competitor.

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Control Drawings

Maintaining control over IP is a major challenge and there are a few key ways to mitigate risk. The first relates to your drawings.

Example: Prior to engaging with us, one client in the outdoor home goods market worked with a supplier who refused to turn over a final set of drawings. Even though the client provided the initial set, nine revision levels later, the supplier did most of the development work to get to a functioning product. The client did not separately compensate the supplier for design work. Without final drawings, the client could not apply for patent protection in the USA and worldwide. Unintentionally, the client created a competitor.

The bottom line: Stay up-to-date on drawing revisions and improvements and maintain document control. If you do not have in-house engineering capabilities or capacity, engage a separate partner to maintain drawing and IP control.

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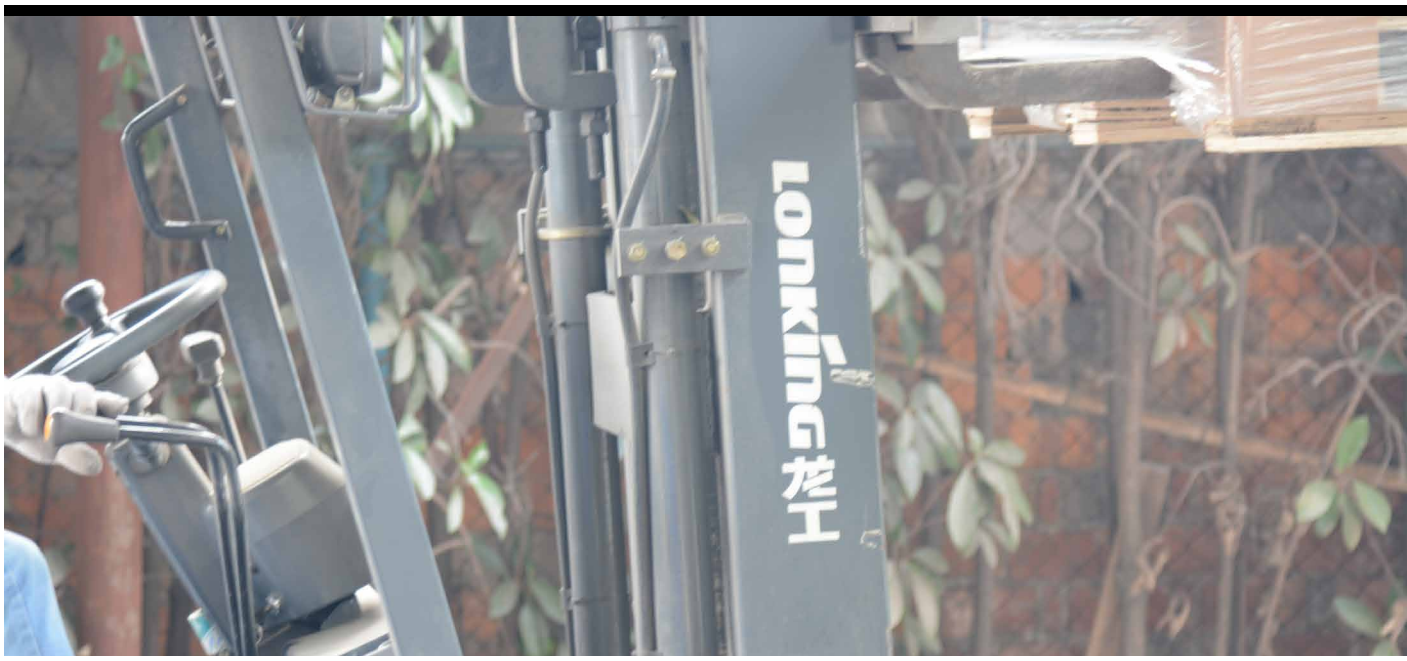
Control Tooling

As with drawings, tools must be managed as strategic corporate assets.

Example: Prior to engaging with us, one client shopped price and did not realize her supplier built, owned, and managed all tools on behalf of his customers. The supplier's business practice was to win jobs with attractive pricing and recover margins by leveraging tools either across other customers or adding products to his own catalogue.

When the client wanted to move the tools to a new factory, she found out that her original payment for tooling was only a portion of the total cost. To obtain ownership and control of the tooling, she was going to have to pay the remainder to the original factory or fund new tools at the new factory and wait for the new tooling to be completed. This was of course an unwelcomed surprise, additional cost, and delay.

The bottom line: Take tools off the table. Keep them on your balance sheet. Today our client owns her tools. For greater control, we remove the tooling from suppliers' factories when not in production.



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Independent Quality Control

Clients who have been successfully manufacturing in China understand the value of 3rd party quality control.

Example: One of our clients with their own China-based factory with more than 3,000 workers lacked disciplined control of quality required for industrial components and assemblies.

The Bottom line: Separate 'Church and State' to meet quality targets. Today the client engages us to perform independent quality audits for incoming and production parts; during assembly; and on finished goods prior to shipment. This approach of "trust through verification" has proven successful in delivering incremental improvements month after month.

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Job-Shop Manufacturing

Years ago, China's sweet spot was in applying labour to high-volume jobs. Factory owners wanted huge orders of the same thing ("just tell me when to stop producing"). Today, the manufacturing landscape has changed and customers are demanding shorter production runs and more flexibility. "Job shop" or low-volume production is becoming more common and more successful as creative problem-solvers get involved on the production floor.

Example: A decade ago we would have advised against small batch production in China—but this is changing. Back then, China wasn't ready. However, a client in the digital imagery industry required structures and fixtures to ensure image capture repeatability. We were able to engineer a solution which was successfully produced by a cluster of committed job shops, resulting in a flexible and cost-effective solution for the client's global customers.

The bottom line: With the influx of flexible tooling and 3-D printing, and a solutions based mindset, China is growing capabilities to handle smaller batches. As manufacturing matures and as clients demand more frequent design changes, smaller production runs, and extremely tight development times—solutions can be orchestrated with capable job shop manufacturers in China.

Capitalizing on Incentives

Tracking economic zones offering incentives like tax breaks and promises of reduced inspection time can be tricky. In China's top-down governance model, policies can change overnight. Often China tries things in a controlled area, tweaks the model, and then scales it. Changes happen abruptly which can create disruption as well as opportunity.

Example: China opened the first cross-border eCommerce trade zone in Hangzhou in 2015, followed by 12 more in 2016. While applauded as a positive move by foreign companies interested in selling here, China disappointed many by restricting the types of goods that can flow through these zones.

The bottom line: Find eyes and ears on the ground with local connections whom can help you nimbly adapt to changes in the marketplace.

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Selling/Branding in China

China has a huge and growing middle class for B2C and supply chain B2C.

Example: Fifteen years ago we started sourcing components for a fitness equipment manufacturer. Eight years ago we floated the idea of selling equipment to the Chinese market. We started making it easier and faster for Chinese customers to receive the product. Each quarter we fine tune customer experience. With five-star ratings on eCommerce platforms, the client has reaped double digit year-over-year sales increases.

The bottom line: China is open for business more than ever. Make it easy for customers to find, buy, and receive your product. Building trust with the customer – one transaction at a time – has been a successful formula for growing brands and revenue in China.

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Socrates said, “Education is the kindling of a flame, not the filling of a vessel.” For 30 years and counting… clients have fuelled our understanding and helped refine what we know. It’s about finding a partner with shared values who will operate at the speed of trust.

About CMD

Clients turn to CMD to execute and accelerate results for getting ideas to market faster, solving quality problems, and selling in Asia. Accelerate your business:

- Envision. Strategy, market research, prototypes, due diligence, competitive analysis, acquisition targets.
- Make/Ship. Design, sourcing, manufacturing, certifications, packaging, logistics. Drive quality. Supplier audits, in-process, final inspection.
- Operate. Turnkey construction, business process outsourcing, accounting, employee hosting, facility management, advisory/oversight.
- Sell. Localization, licenses, customs, eCommerce, installation, support, customer service, repairs.

CMD serves industry leaders with aligned values, including:

- Do everything with integrity
- Have fun while being the best
- Release the power of people
- Demonstrate respect to all people in all relationships at all levels

Clients are served worldwide from offices in China, The United Kingdom, and USA. Visit us at www.completeMAD.com. We would love to hear your story.

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