

IMPORT FROM
CHINA

Executive Briefing:

Current State of Sourcing Products in China



GRIP REPORT by Elias Amash

GRIP Executive Briefing: Current State of Sourcing Products in China

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There is currently a mistaken belief that many products from China are low quality. Unfortunately, some companies have sourced from China before, and had one or more bad experiences, leading them to believe that many Chinese products are bad. Further, the press paints a negative picture that isn't necessarily true since we hear all the time that products manufactured in China are no good. We've even heard that the tags marked "MADE IN CHINA" are actually made in Korea! Bret Harte (1836-1902), a famous American author and poet who wrote about early pioneering days in California, once stated, "We are ruined by Chinese cheap labor."

Today however, many successful importers continue sourcing from China because Chinese goods have improved significantly and in fact, many Chinese products are now considered the best in the world. Chinese manufacturers are increasingly focused on producing valuable products, developing world-renowned brands and using sophisticated technology.

Manufacturing accounted for 60 percent of China's GDP growth over the past decade. They are manufacturing:

70% of the world's umbrellas

60% of the world's buttons

72% of U.S. shoes

85% of all U.S. artificial Christmas lights

50% of U.S. kitchen appliances

50% of U.S. toys

And,

9% of Chinese goods sent to the U.S. end up on Wal-Mart's shelves

Many factories in China are now using 3rd party inspection services. They value independent oversight that reveals how to improve their quality to better meet the expectations of their customers. And, the Chinese government has become increasingly involved helping their country to make sure it is developing quality products. For example, MADE IN CHINA 2025 is a government initiative aimed at transforming the nation into a lean, innovative and green world manufacturing power by 2025. The plan calls for more and better sourcing of key, high-tech components from domestic suppliers.

The central government has established the National Integrated Circuit Fund in an effort to develop a competitive, domestic semiconductor supply chain. The government wants to follow in the footsteps of their Japanese counterparts, since the Japanese have a better reputation for quality manufacturing.

Hoping to adopt leaner manufacturing processes, the Chinese opened an "unmanned" factory in 2015 to keep prices low while still producing quality goods. As one Chinese CEO says, "we definitely have to be a lot more efficient if we're going to survive."

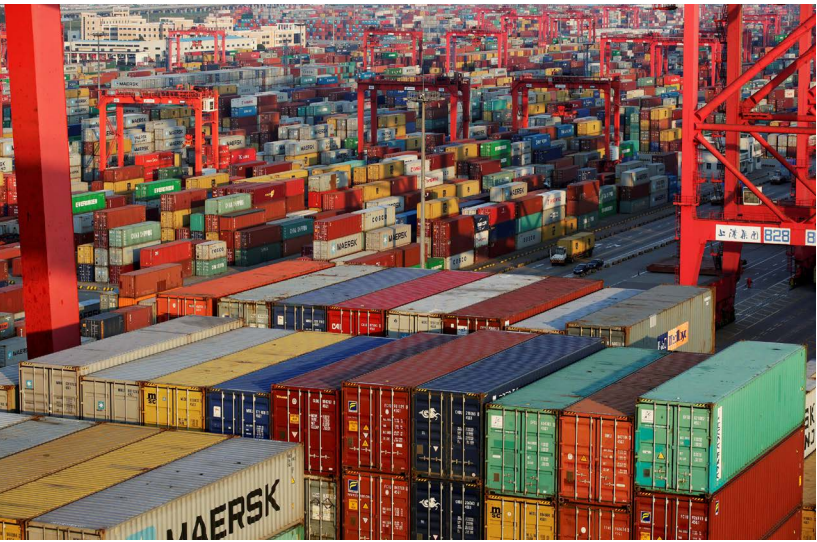
It is true that now, China is the world's largest manufacturing power. Its output of televisions, smartphones, steel pipes and other things surpassed America's in 2010. China now accounts for a fifth of global manufacturing. Its factories have made so much, so cheaply that they have curbed inflation in many of their trading partners. But the age of cheap China may be drawing to a close.

Wages have increased dramatically in the past few years. Better wages relate to better quality products (although higher wages may bring higher prices). Through the first 11 months of 2018, 15 provinces, directly-controlled municipalities, and autonomous regions in China increased their minimum wages. While China is still among the most unequal countries in the world in terms of income inequality, it has made some progress over the past 10 years and, as China's economy moves up the value-chain and transitions to innovation and services, most workers employed by foreign-invested companies actually earn above the minimum wage.

With Chinese labor costs steadily on the rise, and China graduating more skilled engineers and other talent from its universities, the quality of Chinese goods will certainly improve. Many tech industries are turning to China to manufacture their products, such as cellphones, computers and other high-tech products. Along with the tech industry, China is also able to dominate a number of the following categories:

Electrical Machinery	▪The Made in China 2025 goal is to upgrade China's machinery industry to be capable of producing major machine goods using high-tech intensive manufacturing.
Clothing	▪There are about 100 thousand garment producing factories in China distribution branded apparel.
Automobile parts	▪China houses almost all of the world-leading auto-parts manufacturers and exports products at a higher production efficiency thanks to advanced technology.
Furniture, lighting	▪China has been the world's largest exporter of furniture for years and many of the leading furniture designers produce their furniture in China. Chinese furniture designers have a unique engineering mentality that allows for their products to stay in good condition for many years.
Cases, handbags, wallets	▪Revenue in China's Bags & Accessories segment amounts to \$37.57 million and is predicted to steadily grow 14.5% every year.

Retailing giants such as Carrefour and Wal-Mart Stores are going to China to buy an ever-increasing array of goods—from televisions and tools to clothing and crockery—for 25 to 50 percent less than the cost of similar goods made in developed countries. Automakers around the world are encouraging their leading suppliers to open operations in China or are themselves trying to source components there. Although the quantity of goods sourced in this way remains small even for companies that began buying Chinese-made goods more than a decade ago, the pace is accelerating, particularly in high technology, consumer electronics, retailing, and some industrial goods. The result is that leaders in these areas are gaining cost advantages over competitors that source components or finished goods mostly in the developed world.



Sourcing goods in China poses many risks for U.S. companies, ranging from poor quality goods to fraud to difficulty in enforcing contracts. Of course, all of these risks are not unique to China but because it is still a developing country, the potential for such risks are often much greater than in developed countries. However, the potential for substantial cost reductions may make this risk worth it as long as you do your research before buying and proceed with caution. The good news is that you can manage and reduce these risks with a systematic approach to sourcing in China, including the option of working with a distributor that already does business in China and has worked out all the kinks.

On Jan. 1, 2019, the 10% Chinese tariffs jumped to 25% and the Trump administration is threatening to impose another round of tariffs totaling \$267 billion on thousands of Chinese imports. These tariffs mean that just about everything imported from China will have a higher tariff and affecting the retail industry particularly hard. Some retailers are attempting to source alternatives for their products, but this strategy is not easy to accomplish. It is a difficult and time-consuming process running the risk of quality problems, scheduling concerns or both.

You should consider a partner who knows how to communicate with the Chinese factories – a distributor who has been doing business with China for a long time and has figured out how to deal with the problems discussed above. GRIP has an office and staff on the ground in China and is such a company.

How can GRIP navigate and control your Chinese relationships? GRIP works with the quality control personnel at over 500 Chinese factories to make sure your products are correct and meet all of your specifications. GRIP has a comprehensive network of Chinese factories they work with to make sure you get the best prices without sacrificing quality. GRIP has negotiated with overseas manufacturers for over 3 decades building connections and trusted relationships to help retailers avoid the risk of doing business in China.

With a proven track record of supplying their clients with world-class customer support, GRIP has a huge line of innovative products including specialty hand tools, general merchandise, automotive, outdoor, magnetics, LED lighting, and household items, many of which are sourced from China. Their goal is to make you feel confident in GRIP's ability to obtain modern, novel and state-of-the-art products from China that will set you apart from your competitors. And best of all, GRIP wants to foster customer relationships that last a lifetime.

Make GRIP your partner on this side of the ocean. Learn more about GRIP at www.gripontools.net. You can contact them at (616) 877-0000 or email at customerservice@gripontools.net

What surprises executives about sourcing in China is the number of details that can go wrong, and the effort required to hold a plan together. Some of these serious issues include:

- 1. Trump's protectionist policy**
- 2. Labor shortages**
- 3. Politics**
- 4. Legal disputes**
- 5. Travel bans**
- 6. Intellectual property**
- 7. Corruption**
- 8. Tariffs**



About the Author: Elias Amash, President of GRIP, is an industry veteran with more than 20 years of experience in global sourcing, manufacturing, distribution, retail merchandising, fulfillment, marketing, technology, and operations. He is a trusted partner to hundreds of retailers and has “leveled up” the industry with GRIP’s undying commitment to offering only the highest levels of service to its customers. Amash has recently published his third business book, **The Future of Retail** which is available on Amazon. He is also the author of *Importing from China: The Good, The Bad, and The Ugly*, and *101 Bright Ideas: Winning Tactics to Increase Retail Sales*. Be sure to preorder his next business book: *Retail Survival: Who Lives, Who Dies and Why*. (See below)

About GRIP (Grand Rapids Innovative Products)

GRIP was incorporated by Charles Amash in 1980 and has grown into one of the nation’s top suppliers of innovative products to the retail industry. Located just south of Grand Rapids, Michigan, GRIP features a 200,000 sq. ft state of the art warehouse facility including a 2,000 sq. ft product showroom. GRIP carries a product line of over 1,000 specialty hand tools, automotive, cargo control, Goodyear Air hose, LED lighting, Magnetics, outdoors, household items, and general merchandise. GRIP has a proven track record of excellence in supplying retail clients with innovative products, timely fulfillment, and world-class customer support. At GRIP, everything is about earning your business...one customer at a time. It’s about building relationships and fostering business partnerships that will last long into the future. Our goal is to have Customers for Life. The future at GRIP is exciting and we’re hoping that you can be a part of it as one of our many Customers for Life. Learn more at www.whygrip.com.