



*Workers at the Shenzhen Xingrui Toy & Gift Co. assemble items with LED lights and sound.*

# Meet Your Match: How to Find a Factory That's Right for You

It may not be as **life-altering as meeting your soul mate**, but because the success of your company and its reputation **hinge on your Asian business partners**, it's critical that you find a factory that gels with your goals, shares your work ethic and **won't leave you high and dry.**

By Michele Bell

**W**e've all heard the horror stories from suppliers who have used an Asian vendor for the first time and paid up front, only to see the order dissolve into complete chaos when their money was tied up in miscommunication, cultural and time differences and, in some cases, duplicity.

According to the most recent *Counselor State of the Industry* survey, the overwhelming majority of North American suppliers source products from Asia. Clearly it is a crucial link in the supplier to distributor to end-user distribution chain. But because you're here, not there, how do you find a reputable company without spending time and money you don't have and risking your

company's credibility wading through the losers before you find a winner? We talked to some industry professionals with experience and expertise in dealing with factories overseas and have done the legwork for you. Do yourself a favor; take their advice.

## Finding One That's Reputable

There's that tried-and-true litmus stick of character that says you can judge a person by how they treat their waiter during a meal. Some suppliers say the same about the way Asian factory owners and their management teams treat employees.

Georges Ouang is the owner of Scorpion Precision Industry (H.K.) Co. Ltd., which specializes in metal and PVC

items like pins, keytags, and lanyards. Located in Zhongshan City in Guangdong and with an office in Kowloon, Scorpion has 2,200 employees and the facility in Zhongshan is nearly 400,000 square feet – and Ouang is building a new one that will be six times the size of it.

The factory has state of the art equipment and runs like a huge well-oiled machine, filling orders for such companies as BMW, Porsche and Prada. With more than \$24 million in annual sales (in U.S. dollars), the company is clearly successful. But what's even more impressive is the way its employees are treated.

As is standard with Asian factories, the workers live onsite; but unlike the less-than-palatial living quarters in



*Scorpion Precision Industry (H.K.) Co. Ltd. specializes in metal and PVC items. Here, employees in the company's quality control department hand-polish metal keytags being shipped to a U.S. client.*

which some companies house their staff, Scorpion's employees live in spacious rooms that resemble spiffy college dorm rooms. They have a store stocked with food and convenience items on the premises and access to medical care. These are expenses that other factories don't pony up for, but Ouang maintains that they are investments crucial to his company's continued success. "Without satisfied, healthy employees, they can't service our customers to the best of their ability," he says. "And that, I just can't have."

Another strong indicator that Ouang's factory is one of quality is the transparency with which he shows visitors his facility. There isn't a room off-limits, or an answer to a question he dances around; what you see is what you get.

"I have clients and potential clients here all the time, and that's fine," he says. "They're spending their money with me and choosing my products to represent what their companies can offer. I understand that and I'd be the same way – they can open closet doors

if they want to."

Scorpion runs two shifts, and Ouang's quality control department is every U.S. supplier's dream, with meticulous workers who check every item by hand – sometimes more than once for particularly complex orders.

Ouang, who is Taiwanese and Belgian, spent his formative years in Europe and has a service mantra not unlike most U.S. suppliers': "To make sure what we ship is what we promised," he says, "and to do more than expected." For example, the company offers free hand-made color injection molds for clients to proof, which Ouang knows is a help to clients who'd like to see what they're going to be paying for before fronting any money. "Holding something in your hand versus seeing an image sent through e-mail is completely different and much more reassuring."

Perhaps most impressive, when Ouang realized the rolling power black outs that are commonplace throughout Asia would prevent him from running his factory and fulfilling orders at the level his clients expect, he built his own

power plant on the premises. "It was a necessity, so it wasn't even a question that I would do it," he says matter-of-factly.

### **The Perks of Proximity**

As a niche importer of pens primarily for the pharmaceutical, automotive and financial industries, BAS (*asi/37685*), an industry supplier for the past 20 years, is headquartered in New Jersey. However last year, Dan Krassenstein, the company's co-owner, moved his family to Shanghai to open an office for BAS. Having a presence in Asia to check on BAS's factories in person has made an incredible difference, Krassenstein says. "The essential difference is that we see opportunities and solve problem issues at origin – saving a great amount of time and keeping us ahead of the curve." Because he quickly realized what an incredible business advantage it is to be onsite, BAS Shanghai now offers sourcing for other suppliers, under Krassenstein's watchful eye. "Since we often bring in full container loads, our transportation costs are lower and we glide through U.S. Customs a lot faster than a lot of other companies."

Few suppliers can afford to send a staff member to live in Asia, but Krassenstein has a point: Having someone watching out for your business interests – and yours alone – overseas can keep factories on the straight and narrow.

"It's a delicate balancing act to find a vendor-partner – Asian or otherwise – as one has to not only weigh integrity and reliability, but also cost-competitiveness," Krassenstein points out. "The best advice I could give would be to try a few vendors by splitting the sourcing amongst them and see which ones have a better chemistry match with your own. Additionally, if your volumes justify it, try to avoid middlemen – especially those based in Hong Kong or Taiwan, as their eyes are not physically on the





*Georges Ouang, owner of Scorpion Precision Industry (H.K.) Co. in Zhongshan, runs an incredibly impressive factory and has a sharp understanding of the U.S. promotional products industry.*

scene and they may do more harm than good, while at the same time costing you an additional 5% to 20%.”

### **A Test of Tolerance**

Randy Chen, owner of Impex International Inc., has been handling sourcing, operational and logistical issues in Asia for U.S. suppliers for 10 years. As colorful as he is knowledgeable, Chen has an analogy for you: “Picture yourself in a hot spring resort in South Dakota,” he says. “The springs look so good with inviting hot steam on the surface ... now, do you jump right in, or do you first test out the water by dipping your toe a little?”

Chen maintains that China is like this hot spring on a cold, cold day and that finding a good factory takes a lot of resolve and stamina to test the waters with different vendors. “You can first get a taste of importing by using a trading company,” he says. “After you get comfortable with importing, try to visit a few trade shows in Asia and see if you can use a few factories – you might find it easier than working with a trading company.”

And how to tell the difference between a factory and a trading company – the Asian version of our multiline reps?

Chen has two suggestions: First, meet up with an amenable U.S. supplier who’ll be attending the same trade show and who has experience in buying products from overseas, and walk the show floor with him. Second, when you’re in an exhibitor’s booth at one of the Asian trade shows, survey the products they’re displaying. If they’re all one type of product, then the company is most likely the manufacturer; if they have an expansive variety of items, then you’re looking at a trading company.

What makes one better than the other? “A trading company can help you if something goes wrong,” says Chen. “When you’re dealing with a factory directly, they’ve already got your money and won’t have any problem disregarding you – you’re not that important to them, and they can always get customers, especially if you don’t have a long-standing relationship with them or don’t place a lot orders with them.”

Krassenstein, though, sides with the factories. “It’s a no brainer – trading companies are normally not physically at the factory and therefore what they report to be the truth often is either out dated or inaccurate,” he says. “Also, trading companies tend to hide or delay bad news. Factory owners are

more hardworking, honest business people who tend to be more straight shooters.”

When initially dealing direct with Asian companies, before you’ve developed a relationship, you’ll need to send in your money first – usually 30% of the cost of the order – before the factory even starts production, which can take another 30 to 40 days. “Then the balance of the bill has to be paid in full before they release your order,” Chen says, adding that you can tack on another 30 to 40 days for ocean shipment. “So, for new or smaller suppliers, they need to be healthy in capital to source direct without using someone like a trading company or sourcing agent who has long-standing relationships with the factories and get better payment and credit terms, not to mention overseeing quality control in the factory on the supplier’s behalf. What you don’t want is your order to be screwed up and you don’t know something’s wrong until it’s mid-way to the U.S. or pulling into port. When that happens, your options are almost nonexistent.”

### **A Leap of Faith**

If the thought of paying a factory you’ve never used before for the cost of an entire order before it even leaves China makes you reach for the Xanax, you’re not alone. Suppliers concede that you really are taking a huge leap of faith that your order will arrive correctly and when it’s supposed to. Though most suppliers point out that while there are a few Asian vendors who aren’t reputable or won’t do the right thing and fix their mistakes, the majority of them, like Ouang’s Scorpion Precision Industry Co., will rectify a bad situation they’re responsible for because they do have the foresight to see the long-term and far-reaching benefits of building a mutually beneficial and successful relationship with a U.S. supplier over the years.



*One of the many state of the art pieces of equipment at Scorpion Precision Industry Co., this \$600,000 item is able to precisely digitize on metal because it utilizes a pin-point laser.*

Prepare yourself, though, for the fact that even if you get credit terms through a company like Chen's because of his extensive and long-standing contacts with Asian factories, you're still going to have to pay for your order 30 days after it ships. However, because it takes 30 days by boat to get to you, the payment, in effect, is due right away. "But remember," cautions Chen, "your distributor client won't pay until 30 days later."

Consider this simple calculation from Chen: "Each product/item usually has a minimum order value of \$5,000 U.S. dollars per item, per shipment, set

by each factory," he says. "If your line consists of 20 items at \$5,000 it would cost you \$100,000. Add in shipping and other expenses and it would set you back another \$8,000 to \$10,000. This is just to start, and you still won't see your goods for three months."

Chen's ultimate advice? Use a sourcing agent who knows the lay of the land, tell him what your needs are and let him come to you with a short-list of reputable companies that he has a long-standing relationship with. The agent can be a buffer and an extra layer of protection between you and the factory until you're comfortable if and when you want to source on your own.

## HOW TO VET A VENDOR

**Here are some points to consider when looking for an Asian factory from whom to source products:**

- Take a crash course and learn the basics of the Chinese language. Not only does it show that you're serious about conducting business in Asia, factory reps will be impressed that you're making an effort for them. Industry suppliers who are experts at sourcing overseas say this is a crucial part of the foundation to building a solid business relationship.
- Just as you would expect that an Asian factory should take responsibility and rectify any mistake that's their doing, be forthcoming and flexible when the error is yours.
- Solicit and take the advice of your supplier colleagues to learn which factories have grade A reputations for quality, service and shipping. Learn from their experience and expertise until you amass enough of your own – then return the favor by helping someone else when they need it.
- Avoid operations that won't be forthcoming with information about their business, treat their employees badly or restrict access to their factory when you visit.
- A factory that's run with business ethics close to yours is key. Will they step up to the plate to fix any errors? Do they treat their supplier clients as true, long-term partners, going over and above when the situation calls for it? Are they available when you need them? Are they interested in your business enough to learn about the U.S. promotional products industry so they're better able to serve you?
- Come to grips with the fact that you're going to have to put in time doing the legwork to interview many factories, and that while you may encounter some that aren't what they appear to be, you'll also find diamonds among the dirt.

### Found in Translation

Walking the trade shows in Hong Kong with Krassenstein, who speaks fluent Mandarin, is a completely different experience – one that's much easier and more fluid – and he acknowledges that his proficiency with the language gives him and BAS a huge competitive advantage. "Chinese vendors who don't yet know me personally are, after I talk with them in their language for two minutes, left with the impression of efficiency, directness and devotion," he says. "I can, and prefer to, deal directly with the lower level staff actually in charge of the projects and orders we're working on. Most of our promotional product supplier/importer competitors are stuck only communicating with the one staff member who can e-mail in English. Also, since I live in China, I am on the phone or in person real time – as opposed to the 12 to 13 hour time gap where a misunderstanding always costs a day of production."

Krassenstein also says that Chinese people in general are touched when a foreigner goes to the effort to learn and respect their language and culture. "That I am in the promotional advertising industry brings it closer to home," he believes. "They often see it as evidence

of me having Chinese-style ethics and drive and, as such, more similarities to themselves – which makes cooperation and understanding easier.”

In short, learn a little of the language, and even more about the people at the factories who’ll be handling your orders. They’ll appreciate the effort and it will pay off in their increased willingness to help you.

In the end, there may be no getting around the investment of time it takes to find a factory that can perform the way you need it to, and with which you feel comfortable. Jeff Kramer, founder and CEO of *Counselor Top 40* supplier Bullet Line (*asi/42424*), has been sourcing products overseas for his company and other suppliers for 15 years. He recalls the days when he and Jay Reifer, Bullet Line’s vice president of purchasing, would pick an area in China and

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– Dan Krassenstein, BAS Shanghai  
(asi/37685)

personally go from factory to factory, experiencing the good, the bad and the freaky first hand. “I remember going to a factory where dogs ran out and chased Jay and I – we had to dive into the car to get away from them,” he laughs. “But among some awful ones, we also found some excellent factories that we still enjoy great relationships with today.”

When looking for a factory that’s a good fit for your company and for your own peace of mind, you have to put in the time and physically go visit as many as you can. “There were times when Jay and I would spend 14-hour days just going from factory to factory,” Kramer says. “But you do it. It’s a process of elimination that everyone goes through. Eventually, you find the ones you want to use.” □

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