



## What You Need To Know When You Have A Chinese Products Case

By Rosemary Coates

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A few times a year, when my clients request it, I go to China to evaluate a manufacturing site, solve a quality problem, or set up a new operation. I have seen some things that are astonishing and some not so pretty. On one end of the spectrum, China has very sophisticated manufacturing with high-tech machinery and clean-room operations. At the other end, are factories with primitive equipment and low-skilled laborers. Problems with contracts and problems with quality control are common on both ends.

I often work as an Expert on cases where a contract has not been honored. Perhaps raw materials have been substituted or altered causing a dispute in the quality of the end product. Perhaps a schedule hasn't been met or there is a payment dispute between parties that cannot be resolved. But no matter the dispute, there are some fundamental things about Chinese manufacturing that must be understood and considered.

1. **A contract is viewed differently from a Chinese perspective.** Westerners tend to negotiate the terms of the agreement, memorialize the terms in a contractual form, and consider the negotiation over when the contract is signed. But the Chinese have an opposite view with the contract as the starting point that begins the process of execution. From this starting point, the sourcing and production process may be altered to increase profit margins or

fit with the production schedule. Some sub-processes may be outsourced to a third party - perhaps a relative or friend. Quality control occurs only when Westerners are on site for inspection.

2. **Quality Fade is likely.** I have clients who locate a source or contract manufacturer in China, qualify samples and begin production. Typically they are thrilled with the quality of the initial production run, the responsiveness of the supplier, and the low-cost of products. But over time, product quality begins to fade and shipping schedules often slip. This is because the Chinese have negotiated a contract that begins with a low-margin or break-even price, otherwise commonly known as “the China Price.” In order to improve their profit margin on the product, they must cut corners on raw materials or the manufacturing process and optimize their manufacturing production schedule by fitting your products in when there is time.
3. **Oversight is important.** Seeing the factory where products are being manufactured is an important part of a company’s responsibility. But this doesn’t mean that an importer must be at the factory every minute of every production day. Some of my clients visit quarterly, while others visit once per year. Still other clients will hire an agent to perform a quality audit of the factory and the products. All of these alternate approaches may work as long as a reasonable effort is made to oversee quality. What is reasonable depends on the product, the manufacturer’s experience, and the clear setting and communicating of expectations.
4. **They can’t and won’t unlearn your processes.** Just because a US importer has decided to move production from one contract manufacturer to another, or even if they decide to reshore manufacturing to the US, they shouldn’t expect that the original Chinese factory will unlearn how to manufacture the product. It’s more likely that the original factory will continue to make the same product, using a different brand name or label. If a client does not have a Chinese patent, issued by the Chinese government, there isn’t much that can be done about this.

That’s only half the story. The US importer also has responsibility for actively controlling the oversight and importing processes. This is a topic for another time.

I help my clients (and the attorneys representing them) to understand the nature of doing business in the rough and tumble and very high-energy environment of Chinese manufacturing and the importing process into the United States. The standards and practices are different and the culture of course, is a world apart.



About the  
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Rosemary Coates is the President of Blue Silk Consulting, a Global Supply Chain consulting firm, with an impressive list of over 80 clients worldwide. She is a seasoned executive with an MBA and 25 years of experience in industry, consulting and as an Expert Witness. She is also a Licensed U.S. Customs Broker. She is the author of five books including Amazon.com Best Seller: [42 Rules for Sourcing and Manufacturing in China](#).

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