



# Why manufacture overseas?

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Companies are increasingly seeking methods by which to improve their business. One such means is by outsourcing the manufacturing process. There are many benefits to outsourcing the manufacturing process overseas including:

- Cost and time efficient manufacturing
- Flexibility in product manufacturing
- Reduced Capital Expenditure
- Streamlined and cost effective logistics management
- Reduced warehousing cost
- Ability to use a local team to address issues effectively as they arise saving time and cost.

Having your product manufactured overseas in countries such as China is not as simple as sending a 'napkin idea' to a manufacturer and waiting for your product to arrive on your doorstep. Between generating an idea for a product and manufacturing the product for the market, there are a multitude of elements to consider.



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# Steps to consider

Below is a guide to the stages involved and elements which you may need to consider when developing a product.

## A) Product design and development

Intellectual Property (IP) refers to property of the mind or intellect and can include designs, inventions, ideas etc and therefore the protection of IP and preventing counterfeits is an important factor to consider. Registering for Patents, Trademarks and Copyrights are steps you can take to protect your design, invention, device, logo etc. Every country has a set of IP laws that is unique to that country and therefore it is necessary to register for patents, trademarks and copyrights in the country in which your product is being manufactured. In addition, Non-Disclosure Statements (NDAs) can be established between you and your manufacturer.

Sourcing agents with local teams can assist with other ways to assist in IP safeguarding. Hornet Group can assist with flexible manufacturing methods that can assist with IP protection.

## B) Factory sourcing

Sourcing a factory overseas to manufacture your product can present several challenges. Some of the main challenges are the language and cultural barriers which may prevent effective communication between you and the potential manufacturer. Contractual and ethical differences also exist which can cause issues with offshore product orders and business dealings. Suppliers may make certain business claims but unless these are verified one can not be sure they are truthful. Consequently the arrangement or orders made may not be fulfilled as expected.

Working with a sourcing agency such as Hornet Group can help smooth some of the challenges you may face.



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# Benefits of working with a sourcing agency

## Factory visitation and inspection

- Hornet Group has teams based overseas to ensure factory credibility and up to date licensing verification. The team can also check that certification and manufacturing processes meet the product or customer requirements.
- If you have a manufacturer you would like to use, Hornet Group can perform a complete factory audit. Potential manufacturer's credentials are thoroughly checked. Factory banking details and factory registrations, export licenses are verified. Physical factory conditions, manufacturing processes are inspected, photographed and reported on. Clients receive a detailed audit report to allow them to make qualified supplier decisions.

## Quality and reliability

- To send an employee overseas to oversee production processes is expensive and often time prohibitive. Overlooking this step may result in shipments of defective goods. Having a representative from a sourcing agency such as Hornet Group on site to check stock quality enables you to have eyes on the ground. You will be given a report on the quality of your products. This ensures you are aware of any quality issues. It places you in a position to negotiate with the factory and resolve any issues if required before freighting your stock.



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## Smoothness of communication and project flow

- Having a local representative helps to facilitate correspondence between you and your supply factory and provides active project management that ensures that timelines and specifications are communicated and nothing is 'lost in translation'.

## Cost effective warehousing and freight

- Sourcing agents with local offices can often provide cost effective warehousing and pick and pack services. Hornet Group's team can split your consignment and freight your products internationally. This saves time and money ensuring that double goods handling is not necessary.

## C) Initial quotations submitted and reviewed

When reviewing initial quotes, familiarise yourself with common terms such as lead times, MOQ (Minimum Order Quantity), the sample cost, cost per piece, Incoterms and any other terminology that may be specific to the manufacturing of your product. Depending on these, you will need to then select a manufacturer that can best meet your needs. This may be an overwhelming task. A sourcing agency such as Hornet Group can assist you in managing and assessing a myriad of quotes to select the manufacturer that best meets your needs. Hornet Group's China team will utilise their skills to research different factories and compare them to select the most economical and reliable factory to produce your product.



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# What are Incoterms?

Incoterms are a set of 13 terms that deal with the documentation for global trade in a uniform language that can be understood between members of the industry. The main 3 are as follows:

## **EX-Works**

Ex-Works (EXW) refers to transactions where the seller is responsible for transporting the goods to their own place of business. The buyer is responsible for organising all transportation and paperwork including insurance, customs clearance and any other shipping documentation to have the goods transported from the seller's place of business to the designated location.

## **FOB (Free On Board)**

In an FOB transaction, the seller is responsible for the transportation of goods to the designated port along with the corresponding shipping documentation. The buyer is responsible for all transportation and paperwork thereafter to have the goods delivered to the designated location.

## **CIF (Cost, Insurance and Freight)**

In a CIF transaction, the seller delivers when the goods pass the ship's rail in the port of shipment. The seller is responsible for all costs and freight necessary to bring the goods to the named port of destination.



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## **D) Factory selected based on assessment of quotation and ability of the factory to reliably serve the project.**

After researching, reviewing and assessing initial quotes, Hornet Group will present to you the quote from the manufacturer that best meets your requirements. Furthermore, Hornet Group has the facilities to verify the credibility of manufactures. This is an extremely important step because many companies have found the deposit they have transferred in good faith has been stolen by a fraudulent overseas vendor. A sourcing agent will ensure this does not occur. Complete factory checks are difficult to undertake and complete thoroughly from offshore. Hornet Group has a team based in China, not only fluent in the local language but also familiar with rules and regulations related to business in China and can assist you in the assessment and selection of the most suitable manufacturer.

## **E) Pre production processes. These may involve building moulds or tooling, material sampling, sample production, packaging production, testing, etc.**

Once a manufacturer has been selected, depending on your product, various pre-production processes may need to be completed to ensure the product being produced is aligned with the product you have envisaged. These may include setting up artworks, building moulds and/or sampling different materials. Once these processes are completed, a sample is produced for you to review and, on your approval, production of your product will begin. Liaising with the manufacturer is essential to ensure that the product being manufactured is in alignment with the product you envisage. Hornet Group's China team can work with you and the manufacturer to ensure this alignment is achieved.



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## F) Final costing, Production and Assembly

When creating a product to sell, consider the elements required to ensure it is user or retail sales friendly. The addition of these essential elements may add to the base cost of the item being manufactured. When calculating the final costs involved in your product, you should consider the cost of barcodes, printed instruction manuals and other inserts that may be included in your product package. Furthermore, it is necessary to consider the cost of the packaging itself.

Barcodes are unique global numbers that are allocated to products, logistics units locations and/or assets. Every different variant of a product Barcodes can be purchased online through websites such as 'GS1' (<http://www.gs1express.com.au/barcodes/>)

Before your product enters the mass production and assembly process, it is necessary to consider the packaging requirements for the product. In addition, if your product needs to be ready for exporting, carton packaging requirements also need to be considered. Depending on your product, specific certification or testing may be required. For example, some products require a food safe certification to ensure the safety of the consumer when using the product.

## G) Quality inspection

Before paying the completion payment for your consignment it is important to ensure the product is being manufactured in accordance with AQL (Acceptable Quality Level) standards. No manufacture run can produce a 100% perfect consignment. Consequently the government has standardized the acceptable levels of consignment quality called AQL. This is defined as the maximum percent defective or the maximum number of defects per hundred units of the product for quality assurance purposes.

Hornet Group have local QC teams that can perform a quality check on your consignment in accordance with AQL standards. This allows the client to have a clear understanding of the quality of the consignment and any imperfections present prior to paying for the consignment and freighting it. If required the factory can amend the stock and ensure the required quality is met. Having a team on the ground ensures that Hornet Group can effectively manage negotiations if required. This saves Hornet Group's clients time and money. It is a costly exercise for an employee to travel back and forth to perform quality inspections offshore.



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## H) Shipment

When your product is ready for shipment, you will need to consider the type of freight - air or sea. The type of freight you choose will depend on your budget, the amount of cartons and the amount of time you are willing to wait for your goods to arrive. Insurance on your product is a separate cost in which you need to consider. Hornet Group can assist you in purchasing insurance if you desire.

Taxes such as GST and Customs Duty (the tax on imported goods) are costs which you need to consider. These are dependent on the classification of the products being imported. Hornet Group's customs broker can assist you in the classification of products and try to ascertain the most cost effective solution for you.

Goods over \$A1000 require a formal import declaration to be completed. Formal import declarations can be completed manually by downloading forms available at [www.customs.gov.au](http://www.customs.gov.au), electronically through the Customs and Border Protection Interactive Service accessed via the Customs and Border Protection website at [www.customs.gov.au](http://www.customs.gov.au) or by calling 1300 558 099. Alternatively, a customs broker can assist you in clearing your goods.

Goods that are under the \$A1000 entry threshold will need to be assessed by Customs and Border Protection. A copy of the invoice for the goods will need to be provided and Customs and Border Protection will assess whether the goods require a formal import declaration or not.

Goods that are in excess of the \$A1000 threshold and/or contain alcohol and/or tobacco will be assessed and given a Customs value (which is a combination of customs duty, international transport and insurance costs and where applicable, Wine Equalisation Tax) on which a Value of Taxable Importation (VoTI) can be produced. Once Customs and Border Protection have assessed your goods, you will be advised the amount of duty/tax and other charges payable.

The complexities of manufacturing are varied and getting them wrong can be time consuming and costly. We recommend you use a sourcing agent such as Hornet Group to help you navigate the process simply and efficiently.



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