

# Sourcing and Importing from China

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*3 ways to do it and how to decide which is right for you*



**Hornet Group**

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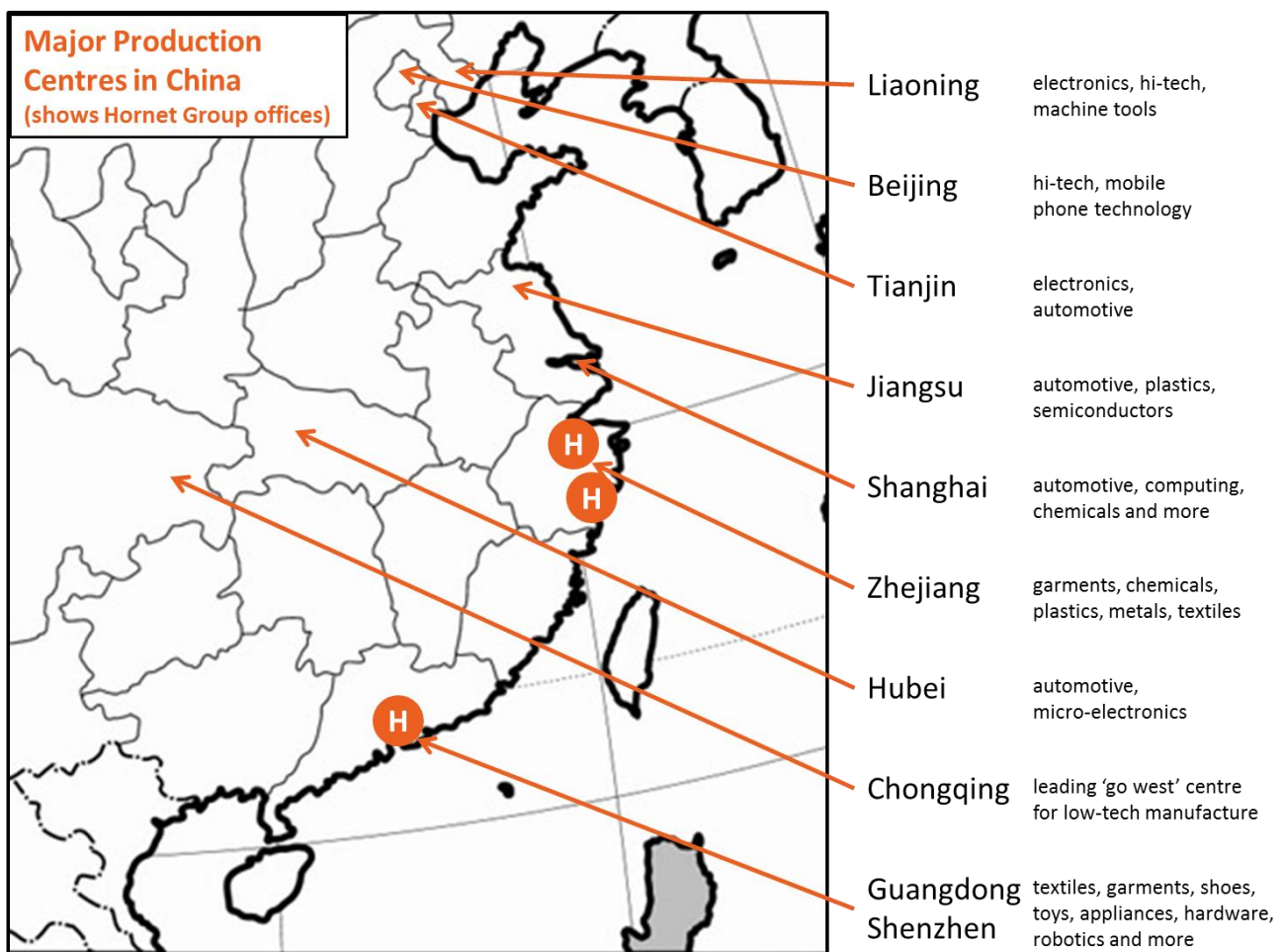
## Introduction

China is the world's factory. Over 30% of all global manufacturing takes place in China. Everything from hi-tech like mobile phones and robotics to textiles, ceramics, plastics and even good old-fashioned bamboo.

Whether you want components, finished product, spare parts, packaging or even factory moulds, you can get it in China. In many if not most cases, you can reduce your total cost without sacrificing quality. If you know how to do it and if you do it right.

This guide outlines the three commonest ways companies approach sourcing from China. Each of these methods is valid. Each has its place. It depends on your business and your needs. We aim to help you decide which method is right for you.

Before we examine the three ways of sourcing from China in detail, it's important to understand the four factors which should drive your sourcing decisions. These factors will not only help you decide whether it's better to source locally or overseas, they will also help you decide how to source. In the best way for you and your business.



## Four Factors to Consider in Sourcing Decisions

### Money

In our experience, most businesses start by looking at dollar costs, so let's do the same.

Online marketplaces make it really easy to gather pricing information for your product, whether you source locally or overseas. But remember, total cost is made of more than the product price.

- What about freight charges, import duty and other costs?
- Are there minimum quantities required for order?
- Are you sure you are comparing goods of equivalent quality?
- What's the cost of checking quality?



### Time

A common rule of thumb when sourcing is to get three competitive quotes. This takes time, even when you're sourcing something off-the-shelf locally.

You approach three companies. Two respond, the third doesn't. So you need to chase another supplier.

The two quotations you have vary in detail – one includes delivery, the other doesn't. One requires prepayment and the other doesn't. You have to calculate total cost including delivery. You have to calculate the additional interest on your business loan from paying earlier.

All this takes time.

For a more complex product, you may also want samples, or client references you can follow up on.

If you're looking for something customised (your branding, your colours, a specific size or even manufacture of something you have designed yourself) the process is even more time-consuming. Potential suppliers will have questions and you'll have to answer them.

No wonder large businesses have procurement departments dedicated to sourcing goods, while other people get on with selling and operations.

## Leadtime

It's obvious but it's worth repeating. If you source from overseas, goods take longer to reach you. There's a trade-off between cost and speed.

Exactly how much your leadtime will be affected depends on your goods and your chosen method of transport. Air freight takes a few days, but is expensive. Sea freight transit times are measured in weeks if not months.

Good planning can reduce the impact of a longer leadtime on your business, but you should consider it upfront. If you're sourcing overseas, how will you manage sudden changes in demand? You can warehouse additional stock in Australia or China, or you can shift to a faster transportation method, but it's a question of balancing flexibility, cost and other factors to suit your business.

Leadtimes are especially uncertain the first time you source a specific item. There's the whole business of finding a supplier. Then there's quality control. First orders are far more likely to experience quality issues than repeat ones – whether your supplier is overseas or local. It's part of the process.

## Risk

Less immediately obvious, but just as important – how much risk are you willing to take with your sourcing?

Risk has two elements – how likely it is that something will go wrong, and how serious the consequences will be if it does. It may not matter too much if the lamp shade is a darker blue than you specified. But what if it's wired for a European power point? The first is more likely, the second is more serious.

Overseas sourcing has more steps, so there's more opportunity for risk. That's not necessarily a problem, but you need to consider how you are going to manage that risk.

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Good sourcing involves balancing all these considerations and deciding what best fits the needs and the risk profile of your business.

## Sourcing from China: The Low Cost, High Risk Way

The low cost, high risk sourcing methodology is quite simple.

Search an online marketplace (such as Alibaba) for suppliers offering the product you want. Choose a supplier, place an order and wait for it to be shipped to you.

This is possibly the commonest way new importers start.

This method looks attractive because:

- It's easy
- There's minimal investment of time or money needed to start the sourcing process.

But there are obvious and not-so-obvious downsides to this sourcing method. Let's take a look at them:

- Are you comparing equivalent costs?  
Make sure you look at the terms. Many suppliers on Alibaba quote a price 'FOB' – freight on board. The cost of shipping is not included. If one factory's shipping from Tianjin and another one delivers freight to Shanghai, you need to know the shipping costs for each to make a valid comparison.
- How are you going to ensure quality?  
All you have are photos online, and possibly a number of online reviews. Even if you opt for Alibaba's latest (???) assurance, it doesn't guarantee acceptable quality. It just means that if things go wrong you can get a refund. But you'll still have wasted a lot of time and effort, and you still won't have what you wanted in the first place. If it was something vital to your business, you've lost far more than the purchase price. You've lost the opportunity for sales, you've lost customer goodwill, you've lost time.
- What happens if something goes wrong?  
You're dealing with an overseas company. You can't use Australian law and Australian courts to enforce requirements. Getting any resolution may take a long time and cost more than the original order you placed!

The assumption that 'she'll be right, mate' is not a good one in any procurement situation. When you're buying from overseas; when your supplier isn't a native speaker so communication is difficult; when you have no easy recourse to law to sort out problems, it's risky in the extreme.

### Who is this method suitable for?

This low cost, high risk method of sourcing is not one Hornet generally recommend, especially for businesses. But it does have its place occasionally.

If you want small quantities of standard, low-cost, small, light items – and you don't have tight specifications or strict deadlines - this may just be right for you. Why? You're not risking much. So if something goes wrong, you can simply start all over again.

For instance, one member of the Hornet team is a keen amateur singer. Her choir wanted colourful scarves for a season of outdoor performances. They needed a few dozen. The exact colour didn't matter. Quality wasn't a major issue.

Ordering from a supplier on Alibaba took an hour or so of research. The total cost was less than \$200. And if there had been any issue with the order (in this case there wasn't), it didn't really matter.



On the other hand, we've had companies come to us when they've ordered via Alibaba, their first shipment has arrived and is substandard, but they're struggling to communicate with the supplier to sort it out. Sometimes they can't even explain the issues. Other times they can't get any resolution. Sometimes we can help. Other times it's too late.



## Sourcing from China: The High Cost, Low Risk Way

Of course, most businesses are aware of the dangers the Low Cost, High Risk Sourcing Process entails. So they don't adopt it. Instead, many find suppliers on marketplaces like Alibaba and then take steps to minimise the risk. It's a logical response to the situation – but it's also common to underestimate the costs of that risk minimisation.

Make sure you include time as well as money when you assess the costs of this option. Even if the time is your own and you're not paying yourself a salary, all the time you spend on sourcing has an opportunity cost. It's time you can't spend on other parts of your business – sales, marketing, customer service. Time you don't have free to drive revenue.

### Cost Drivers

Key costs to consider include:

#### Supplier selection

- A good place to start is with simple legal and online checks. Confirm the legal name of the company, then check registration details, credit history, any legal proceedings and any other online information. Even if you know where to search and can read Chinese fluently, this is a time cost. Especially since you will probably need to investigate multiple suppliers.
- You also need to assess the general proficiency and responsiveness of the potential supplier. Do they answer your emails promptly? Is the communication good, with clear English and all questions addressed promptly? What experience do they have with your product? Do they have quality processes or certifications? Have they manufactured for export before? Once again, there is a time cost in communicating with the various potential suppliers to reach a decision.
- It's now time to look at quantities and pricing. Are you happy with their price? Are they happy with your proposed volume? The minimum order quantity required can vary widely, dependent on factory capacity and setup. This can be challenging if you can't commit to volume. Yet more time cost.  
(Read more [information on factors affecting MOQ here](#), plus extra information specifically about [minimum quantities for clothing](#).)
- While you're discussing volumes and prices, you should also raise any other points required in your sales contract. Leadtimes. Quality standards. IP protection. What will happen if any requirements are not met. Remember, you are dealing with an overseas business, so contract enforcement by law will be difficult and expensive, if it's possible at all. It's a last resort you don't want to rely on. Far better to negotiate a strong agreement which makes it worth the supplier's while to deliver what you want.
- Finally, you or a trusted independent third party should visit your supplier and conduct a physical audit. It's the only way you can be completely sure who you are dealing with. If you contract a third party, make sure they are independent. If you go yourself, you will probably need a translator. In either case, this onsite audit is likely to cost significant time and money.



## Quality control

Manufacturers have quality control processes for a purpose. The earlier you catch and fix a problem, the less expensive it is. You certainly don't want to find quality issues after the goods arrive in Australia, when you have already paid in full and you have no leverage over the supplier.

As a bare minimum, your quality control processes should include:

- Specifications. The more detailed the better. These are very much your responsibility. The exact blue of a lampshade may not matter, but what if it's the colour of your logo on custom branded packaging? There may also be regulatory requirements in Australia – the level of lead or heavy metals in paint, electrical safety switches and so on. Unless you specify them precisely, your supplier doesn't know they matter to your definition of 'quality'.
- Samples. However detailed your specification, there is nothing like a sample to demonstrate the supplier has completely understood. Whether samples are provided before or after you sign an agreement with a supplier, you will incur cost. This may be simply shipping cost, or it may be the entire cost of producing the sample. (One way Chinese manufacturers keep prices low is to avoid sending out samples free of charge to all and sundry.)
- Pre-shipment inspection. Production goods are not always exactly the same as samples. The supplier is not necessarily trying to cheat you. They may be, or they may be trying to save cost and not realise that a substituted raw material or part is not acceptable to you. It depends on the quality of your specification. Whatever the case, it's important to check goods and identify issues *before* you pay the balance of the cost and ship to Australia. This gives you leverage over the supplier (they want their final payment) and saves you the cost of shipping low quality items back and forth. You have more options.

Once again, you can see there are both time and money considerations in ensuring quality.

This 'high care' method of sourcing from China, at a minimum, will require two factory visits. One is for the initial audit, the second is for inspection of the finished goods. You can go yourself, in which case budget for the international travel and for an interpreter. Or you can send a trusted local partner – but how are you going to find the trusted local partner? And what are you going to do if they let you down?

## Who is this method suitable for?

If your organisation is planning to make major investments in sourcing from China and has the staff resources and expertise to handle the process internally, this method may be right for you. But be prepared to send someone to China one or two times a year on an ongoing basis, just to maintain relationships. Or if you're really big you may want to set up your own office in China to manage sourcing – many national and international brands have done just that.

For many companies though, the cost of this approach outweighs the savings. And so they choose not to source overseas at all. Which is a shame, because there is another way.

## Sourcing from China: The Partnership Way

Working with a specialist sourcing agency can help you achieve low risk sourcing from China without paying the earth.

How?

As explained above, the costs of ensuring quality in your overseas procurement can add up significantly. When you use a sourcing agency, however, you don't have to bear all those costs yourself. Instead, they are shared out between clients. And cost is further reduced in areas like freight, where the agency has more volume and more negotiating power than you would on your own.

What's more, since the agency staff focus exclusively on sourcing, their level of expertise is extremely high. So you get a better service and a lower risk than would be feasible on your own.

A sourcing specialist like Hornet, with offices in China and in Australia, gives you the best of both worlds. An Australian business, accountable to Australian law, with an awareness of the Australian market and regulatory conditions. Plus a presence in China, with local bilingual staff who understand Chinese business conditions and culture.

### How a Sourcing Partner Helps Control Cost

Some of the concrete ways :

- Help with product specifications.  
We have standard templates for non-technical products. We're aware of the commonest 'omissions' and know the kind of things which got 'lost in translation'. We can connect you with expert CAD designers, packaging designers and graphic designers if you need further support.
- Local Chinese staff to research potential suppliers.  
Our teams in China are constantly researching, communicating with and visiting manufacturers across a whole range of sectors. Using these local staff eliminates language and cultural barriers, so supplier selection is massively simplified.
- Cost effective onsite supplier audit  
Our local staff have no need of interpreters. They visit factories all the time, so they know what to look for. And thanks to the strategic location of our offices near major manufacturing hubs, many audits can be done within a single day's travel.
- Easy quality inspection  
Once again, our staff can travel to supplier locations for pre-shipment inspections.
- Competitive shipping rates  
Since we handle freight for so many clients, we have the volume to negotiate discounts with couriers and freight forwarders. In many cases we can get better rates than our clients can individually.

Perhaps most important of all, as a sourcing agent we focus exclusively on sourcing. We know all the steps of the sourcing process. We follow them so often they become second nature. We keep up with regulatory change as part of our daily business. Instead of a steep learning curve, we have deep expertise. We do things right – and we do things efficiently.

Working with Hornet can cut clients' workload by 50 hours or more per sourcing project – that's a whole working week to devote to growing and managing your business! And with our expertise, local offices and negotiating power, we're also very cost-effective. So clients can be confident that they're getting reliable quality goods from China while still saving money.

### **Who is this method suitable for?**

If you'd like to benefit from high quality, low cost international sourcing, but you have limited resources for the sourcing process, partnering with an agency is an ideal solution.

While you will need to invest time in key tasks like product specification and review of samples, the amount of your time required is kept to a minimum.

If you'd like to know more, please [visit our website](#) or [contact us](#) for a no obligation chat.

### **In conclusion**

While there are many advantages to be gained sourcing from China, there are certainly risks too. For all except the smallest investments, we recommend taking steps to protect yourself from risk. That might be working with a partner such as Hornet Group, or you may prefer to develop international procurement expertise in-house. The decision depends on your plans and priorities. We hope this brief guide has given you some insight into factors to consider.

If you have more questions, or if you're not sure what the right course is for you, please don't hesitate to contact us. With more knowledge of your business, we can make more specific comments.

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## Resources and Further Information

Whether you decide to work with an agency or go it alone, we encourage you to explore our website which contains useful [advice on all aspects of importing from China](#).

The following resources may also be of interest:

<http://www.border.gov.au/Busi/Impo/Gene>

<http://www.border.gov.au/Busi/Impo/Labe>

<http://www.border.gov.au/Busi/Impo/Proh>

<http://www.ipaustralia.gov.au/understanding-intellectual-property/ip-for-business/doing-business-overseas/ip-protection-in-china/>

<http://dfat.gov.au/trade/agreements/chafta/Pages/australia-china-fta.aspx>

<http://www.sourcingoverseas.com/overseas-manufacturing-china/>

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If you have specific questions about your business, please contact us and we'll do our best to assist you.

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