

# Outsourcing in China

*An article published by the China-Britain business council providing advice about sourcing product from suppliers in China*

When looking at the attractions of manufacturing in China weigh up the benefits of subcontracting, or outsourcing, in China. If your company's manufacturing requirements can be met through an outsourcing operation, this may be the better option. It may be possible to outsource using local manufacturers in China. Much of the myriad of goods on sale in the West bearing a 'Made in China' label is manufactured under contract.

The problem is that there may be barriers similar to those facing investors: an unfamiliar location with what appears to be an alien business culture. Again, there may be the challenges of re-design work if this is to be a feasible option.

In many cases it will not be possible to deal direct with a small Chinese manufacturer; such entities do not possess the all-important licence to export the finished goods.

Getting an export licence has become much easier than before. But it is still often complicated by the fact that you have to use a local import/export company to get your products out of China. But it can be organised, and sometimes smaller manufacturers offer low-cost production in conjunction with a local import/export company equipped with such a licence.

Whether one is dealing direct with a local back-street factory or through an import/export company, the quandary for many British companies is how to contract safely with a company of this kind? Will the timescale, quality and

price of the production be acceptable? Are the various parties involved honest? And what about the protection of the intellectual property entrusted to the Chinese manufacturer?

Most Western companies outsourcing production to China eventually find solutions and emerge from the process with satisfactory products manufactured at attractive prices. But many experience enormous misunderstandings and difficulties along the way. There are widespread accounts of problems in achieving quality standards, in modifying established products and in keeping to agreed production schedules. (Payment problems are less frequently complained of).

## **Managed outsourcing**

An alternative approach to outsourcing is to use a European-based intermediary to manage the process for you. There are several consultants experienced in manufacturing in China that offer such a service (sometimes known as 'managed outsourcing') to Western companies.

This service has several advantages compared with outsourcing direct or via a local import/export company:

- you are dealing with a Western intermediary, whose reputation can be assessed by reference to other clients for whom work has been performed.
- the contractual and payment aspects will usually be handled overseas, which is much more straightforward for a

company new to China than dealing with Chinese entities direct.

Managed outsourcing consultants have offices in China through which they place, oversee and manage local production on their clients' behalf. The advantages of this method include:

- the ability to negotiate a low price by obtaining quotes from a number of competing sources
- maintaining control over quality throughout the production process
- and the assurance that the finished product will meet the client's standards

### **About the Author**

CBBC is the UK's leading organisation helping British companies do business in China. They deliver a range of practical services to British companies wishing to export goods and services to, invest in, or establish manufacturing under license arrangements with China. <http://www.cbcc.org>

There is also a degree of inherent protection against intellectual property rights (IPR) abuse. Some of the managed outsourcing consultants offer the ability to undertake final assembly of a product under supervised conditions. This means that the components or sub-assemblies may be distributed amongst several Chinese manufacturers who do not have a view of the final product or even any notion of the purpose of the item they are manufacturing.

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