

Laura: Hello everyone. Welcome back to CPGs Sourcing's podcast, The Supply Chain of Thought. I'm Laura Dow and I'm here with CPGs, founder and CEO, Michael Declerc. Welcome back. I'm very excited as well. This is a special episode. We're doing a little bit of a different format. We are doing this episode because we are launching an e-book in the near future, hopefully in the coming weeks. Today, we wanted to introduce that e-book and take you through it. The name of the e-book is An Advanced Guide to China Sourcing and Procurement. It's the result of decades of real experience and designed for companies that are importing millions of dollars of product from China, and they want to know how to do this smarter, safer, and more profitably.

Laura: Let's just kick things off, dive into it. Michael, can you share with listeners your views on why we decided to write this e-book?

Michael: Very good question. Starting with why a book? Books seem to be antiquated. Absolutely. Who reads books lately? But I guess enough people do. We wrote this book because we felt that in a world where the global supply chain is challenged, and the premium is on agility, it is beneficial for buyers to be as knowledgeable as possible about the complexities related to China sourcing.

Michael: We keep seeing the same problems repeating, even with seasoned buyers, problems that could be avoided. Poor contracts, rushed procedures, ambiguous specs, costly mistakes with quality, and so forth. We found very little out there that offers practical detailed solutions tailored for China sourcing. You can check, or try and get normally, if I have a problem with fixing something, I can go to YouTube and get a YouTube video on it, but not on this topic.

Laura: Agreed.

Michael: We pulled up our sleeves and set out to fill that gap. We're very proud of the results.

Laura: Yes, I'm enthusiastic about it. I hope readers find it useful. I want to circle back on this term advanced and why we are calling it advanced. But also, just before I ask you that question, you did mention seasoned buyers.

Laura: In my experience, I've worked with CPGs since 2018. I think we found clients have more-- the more seasoned you are, the more issues sometimes occur because you get a little bit too comfortable, a little bit complacent with your system. Perhaps you didn't have it set up in the best way when you started sourcing. And in the beginning, no problems arose, but then down the road, the foundation crumbled. That is why I think your comment about even seasoned buyers might use the sky, and that's why we're calling it an advanced guide. I want to go into more detail on this advanced description. What would we mean by this?

Michael: Well, first let me address your comment about seasoned buyer because it's a very good one. It's not an obvious thought because obviously seasoned buyers tend to be people that don't need additional information. But you're correct. Seasoned buyers have done their homework.

Michael: It's kind of reminiscent of Daniel Kahneman's book "Thinking Fast and Slow." They first think slow, they do things step by step very carefully, and then eventually they go clicking their fingers, getting it done because they've learned, and now their brain is on the fast track. But the problem is that in China today, the supply chain is challenged and it's changing, and people have to be with it, as it were.

Michael: And seasoned buyers tend to be slower to react to that because paradoxically of their very knowledge, of their very experience. So it's an interesting comment that you made.

Laura: Having said this, why do we call it an advanced guide?

Michael: Well, we think of it as advanced for two reasons. It addresses issues more in depth than what you would find in a quote, "basic" unquote guide. Many issues covered in the book are obscure to many importers. Moreover, the book targets experienced and knowledgeable importers. Again, seasoned importers who are very familiar with basic sourcing procedures. The kind of basic procedures that they would find boring because they're so obvious.

Michael: In any case, this is a small book, but we packed it full of the knowledge we feel is essential to possess today, to succeed in sourcing management.

Laura: Absolutely. And while we call it an advanced guide, I think even novice or new China buyers will also find it very useful. Of course, they can take advantage as well. We treat this as more of a handbook and we can talk about that a bit more later. But in this episode, we're just going to be taking listeners through the book, walking you through the book, chapter by chapter and sharing a little bit about what's inside, outlining the contents, highlighting some real examples and insights.

Laura: And it'll just be a teaser. Of course, we're not gonna share everything to get all the details. You'll have to download the book. But I think this episode will at least hopefully get you excited and get your wheels turning.

Michael: Yeah, definitely. I mean, if we had to go into all the details of the book, this would be a very long podcast, I think.

Laura: Yes, agree. So we always start with why at CPG. I think that is the first question we ask regarding any issues. So let's return to the why about this. You've touched on this already, Michael, but why the need for this book right now?

Michael: The sourcing landscape has changed. It's not 2010 anymore. It's not 1990 anymore. What a buyer wants is a lot more complicated than it used to be. So you have issues of compliance, traceability, ESG, quality expectations of different data. You're not just buying a product anymore. You're managing a supply chain with a global risk profile.

Michael: And in this environment, details matter. And knowledge of details is power. That's why we built this guide. It's not just theory, it's pragmatic, useful knowledge for people

sourcing real volume, a million, 10 million, or even 50 million annually who want proven systems, not guesswork.

Laura: Absolutely. And you mentioned what buyers want has evolved. And I think, I just wanna clarify this point, China buyers, companies sourcing from China, their needs and requirements have evolved and advanced over time, or I guess become more complex. And that is because the buyers of their products, their clients have changed over time and become more stringent related to quality and environmental sustainability and things like that. And so companies around the world are responding to the needs and wants of their clients. And so it puts greater demands on China being the global factory.

Michael: It's very true. And it's quite obvious, but somehow it's also underestimated this factor, that the marketplace is dictating those big changes.

Laura: It's funny, I think everything related to sourcing and supply chain management, you could say it all seems simple, because it does actually. It doesn't seem like rocket science, but it is the orchestration of all these moving parts. It's the management, it's the cultural differences. It's all of this complexity that makes it pretty difficult to do well. So that's a good point that you mentioned as well. Something that might appear simple is actually quite complicated. So let's start with the chapter by chapter breakdown. I think I'll just start by mentioning, we have a few authors in the book. So Michael, you wrote the intro and conclusion. And then we have chapters written by our head of marketing, head of client success, myself, and also Coral in Beijing. She's our sourcing manager in Beijing.

Chapter One

Laura: So we are kicking off chapter one. This is related to managing onsite sourcing operations. We're in by Jessie Alterman. She's the head of operations and insight at CPG. And managing operations in China and doing it well, or managing sourcing and supply chain in China.

Laura: Whether or not you're doing it well is closely related to whether or not you have a sourcing office and what kind of office you have. And so this chapter, while it's about management, we attack the issue by really asking the question, should you open an office in China, sourcing office in China, or should you try to manage it from afar? And that is what we're tackling in this chapter.

Michael: Yeah, well, I mean, you covered a lot of ground just now. And I wanted to quickly circle back to the core point that you made at the beginning, which is that this book is very much a team effort. As you said, I only wrote the introduction and the conclusion. But one of the reasons I'm very proud is that it's the CPG team who put the book together and key people in our team have contributed to this book.

Michael: And that's why it's both interesting and exciting because you'll hear different voices in different chapters, different ways of approaching issues. And of course, a high level of

expertise for each of them. So to focus now on chapter one, Jesse's chapter, managing on-site sourcing operation, managing the supply chain.

Michael: As you said, it tends to be an issue of, do I want to do it hands-on myself by having a sourcing office in China or do I want to use an agent? And it's not the only topic that is covered in this chapter, but it certainly kicks it off that way. And I think all of us who have fairly substantial sourcing programs will recognize the logic of considering, having your own sourcing office in China.

Laura: Absolutely. I think we often say that if you're doing any volume, high volume, one to 10 million, one million is quite small, but you still would benefit from a sourcing office or a team on the ground to assist to ensure all the details are right. And so that is what we cover in this book. What companies should have an office, what volumes. We also cover some things that companies might not consider, they might miss things such as, if you were to open an office, how do you manage severance, social insurance contributions, ethical issues, hiring, all of that. We go through that or Jesse goes through that in this chapter. - Yeah. And again, you make an important point. A million is not a lot.

Michael: And yet you can see these economies of scale playing a role here because if you're a company that buys a hundred million dollars annually from China on a regular basis, you're obviously gonna be willing to put together a strong team to manage this. But if you're a small startup, then you're only gonna place orders for a few thousands or even a few tens of thousands, which in today's world is very feasible in China. You can place orders, very small orders.

Michael: But the importance of each receiving party of the buyer about all the factors related to that sourcing process are the same. In other words, you want your goods to be in the same quality conformity. You want the goods to arrive on time. You ideally want the best first cost that you can get, et cetera, et cetera. And so I just wanted to point out that even though the book targets, especially this chapter targets companies that do at least \$10 million a year because otherwise you wouldn't consider a sourcing office. But all the lessons in there also are useful for smaller buyers to sort of think about.

Laura: Absolutely. Before we move on to chapter two, I think it would be interesting to share some examples with listeners about companies that have opened their own office in China and what their experience was like because we know from our own experience at CPG that managing an office in China is not easy. It might sound easy. It's going to make things better, but it's quite difficult. So Michael, do you want to share some examples that we've seen over the years about having a China office? What happened to that office?

Michael: Yeah, so again, very interesting point. First, it starts, let's be specific. It starts with the fact that you need to manage. There are some people, because China has become so good at supplying the world with pretty much everything it needs that people think, what manage? What do I need to manage? I'm just placing an order and getting the stuff I want.

Michael: It might work, especially if you buy stuff off the shelf, but if you're making things to your own specifications and you are pushing hard to get a very high level of quality as well as a low price, again, these are these dynamics that increase the asymmetry of sourcing and puts an onus on the importance of management. Obviously, if you're going to pay top dollar for an off the shelf product, you're not going to worry too much about management, but that's not really what people go to China for, is it? So again, big programs have to be managed and this whole chapter talks about how to manage it. And one of the obvious ways to do it is to open your own office and manage it that way. But as you pointed out, Laura, it seems easy on the surface, but it isn't. And it isn't for a reason that we all know very well. And that reason is people.

Michael: The biggest challenge in management is people. It doesn't matter if you manage an office in Chicago or in Brussels or in China, it's always going to be your biggest challenge. It's going to be people. And since people are absolutely necessary to interact with the other people, mainly the people from the supply chain, the vendors, the translators, the quality managers, the logistic people, that group of people is very important. And so, now you, how do you manage those people? And in China, you have to add the layer of culture, right? So you're putting language and culture because you're going to be, again, managing Chinese people. So you should be very well versed on how to do that. And so then people are challenged by this and they sort of think, okay, I'm going to open an office in China.

Michael: And my problem is going to be, how do I interact with that office? First, I have to speak my language. So they have to be fluent in English. Ideally, they have to be American, right? Wait, if I hire Americans, can they deal with the Chinese? So you know what? I need to think about maybe,

Michael: I hire a Chinese guy to do it. Can I interact with that person, et cetera, et cetera. And so that aspect is at the end of the day, one of the most important aspect. And then you layer with all the other problems which range from legal to bureaucratic. You set up an office, you have obligations, you have legal obligations, social obligations.

Michael: And at the end of the day, you end up with trust issues because you have an office that's running itself. Guess what that office is doing? It's buying, it's buying for you, which means it deals with sellers. And Chinese sellers have this annoying habit of trying to make sure that they get your account. And so what they do is frankly, they talk to your representatives in China and what's in it for you. And so over time, many of our clients, as you know, Laura, have discovered that they were not getting the best first cost anymore.

Michael: And that they were, I mean, I hate to use that word, but their office in China became corrupted. And we've come across all sorts of stories, including one client who was noticing a problem and they decided to send a new manager from the United States, an American who spoke fluent Chinese. He arrived in, I think it was Shenzhen if memory serves. And after about four or five days, he resigned and he literally was afraid for his life. He couldn't run that team.

Michael: These are unfortunate realities that big office sourcing offices in China know how to deal with. And you have to know how to deal with these issues. They don't seem to have anything to do with the supply chain or with sourcing. But at the end of the day, if your people are your instruments for success, you need to be sure you know how to manage them.

Michael: And you also have interesting cultural idiosyncrasies. I remember a Belgian buyer, he's buying about \$15 million a year of a broad range of products. And I asked him, who is the head of your China office? And he said, oh, it's this Hong Kong Chinese guy. And I said, why? Why are Hong Kong Chinese in a China office? And he goes, because I can't trust the Chinese. So I can trust the Hong Kong Chinese. And I'm thinking, you're missing out on the fact that you can trust the Hong Kong Chinese guy maybe, but can the Chinese staff that works for him trust him?

Michael: You now have issues related to that. And so the unwitting consequences of making the wrong decisions can be very profound. And again, if you're dealing in a stable marketplace where nothing changes, over time you can figure these things out. But if you're moving in a fast changing world, where you may have to switch from one supplier to another, when you want to be absolutely sure that you're getting the best quality slash price ratio, your team in China becomes a very, very important factor.

Laura: Absolutely. And I think this topic is very tricky because setting up an office in China and making that decision because of all the topics actually covered in this chapter, it's difficult, takes a long time to do it and to do it well. And you've over time developed these relationships and what you think is trust with these people. And so I think this is part of the problem that I want to share two examples from my experience since starting at CPG. These companies invested time and money for people in China. And then over time, it was hard for them to notice that money was sort of disappearing. And so in the one example was a company, I think they had a team of about four, maybe four or five in China. And when they came to us and they were considering shutting down this office. And so we at CPG, we pulled up our sleeves and sort of delved into the data and the information. And ultimately what happened is we helped this client close their office, their physical location in China. They hired CPG instead. And we had one employee, full-time employee replace four at a fraction, I think it was probably a quarter of the costs. And so I'm not gonna go into all the details about what was happening there, but over time, the program and the management of that China office was not going so well. And that's one example. Comments about that, Michael?

Michael: No, I mean, again, what's interesting is you have, and you've seen this many times now, Laura, companies that are basically looking at their sourcing operation in China and want to close their office. And it kind of makes you wonder what's changed. Why were they happy in the past to go through all the trouble, which by the way is clearly explained in this chapter, what kind of trouble, of opening an office.

Michael: And then now they want to close it. Besides what you just said, sort of you end up with a high level of inefficiency. There are concerns about corruption, but there's another

element when you think about it, Laura. In the old days, it was a glorious thing to have an office in China. It was something that companies bragged about. They put it on their website.

Michael: This is no longer the case. And if you take out that sort of glory element, if you want, or marketing element of that China presence, the desire for such a wholly owned, wholly controlled operation is much less.

Laura: Yes, you said the key word, the C word corruption, which I was dancing around, but I'm glad you said it, just because frankly, that is what we're dealing with in many instances. And then you're also absolutely right about, opening a China office and how it is viewed by outsiders. In the past, it was a sort of a rite of passage in a sense sourcing from China, you open your office there, you have this global presence, and now it doesn't have the same reaction, I think, from people, people are scared or don't want to have that physical presence in the country.

Michael: Well, you're right to point out, corruption's a bad word, people don't like to talk about it. But when you think about it, Laura, anything to do with the supply chain, has a clear link to this concern about corruption. If you look at buyers from Walmart, operating out of Arkansas, they have a code of conduct that is dictated by the concern of the company about corruption, of course.

Michael: Their buyers, in a way, are gatekeepers and people want to get into the gate. So this is not a Chinese thing, it's a global thing. It's all over the world. Laura: That is also what I wanted to say. I think that people associate corruption in China with China sourcing, but it's the wrong association.

Laura: It's associated because China is the world's factory and does provide products for companies all over the globe, but it happens in, frankly, every country and every time. In every business model, you have to have processes in place and hire the right people to prevent this from occurring. So it's absolutely not just China. It does bring me to another example. I was thinking when I first started, I was really surprised because one of our current clients came to us wanting to change their program or their office in China. Maybe they were very cautious about this because they had worked with this employee in China for a decade and were considering another approach. And yet they didn't want to burn bridges. There had been a lot of guanxi that had been developed over time.

Laura: But they came to us and we did a probe on what they were buying. And this was sort of an anonymous probe because we didn't want to upset anyone, their existing program with their existing employee. And our team came back with 90% cost savings on their main product. And I remember my jaw dropping to the ground and I remember the client saying, is this the same product that we're currently buying? And so what was happening over many years is that they were paying frankly almost twice as much as what they should have been paying. And so we were thinking about, this company was thinking about providing a package to their employee because they wanted to essentially end the employment of their employee and hire us instead, but the employee disappeared. And so it wasn't an issue. They

didn't have to provide a severance package because the employee went off into the void because they'd been taking money for so long. Michael: And they were aware of it. The employee was aware of this. And this particular thing went on for decades.

Michael: And based on the employee's behavior, when CPG got involved, the writing was on the wall, I think. And he kind of felt, this is not a matter of if, it's a matter of when. And then when he started to see that we ended up discovering this thing, he disappeared. And it's part of the challenge of managing a supply chain is to, you have to have checks and balances. And it's, as you said earlier, you can't take things for granted. You have to assume the worst and be prepared for it and gear up for it in order to provide a sustainable, repeatable, reliable sourcing process.

Laura: Yes, absolutely. So we should probably stop there for this chapter. We spent quite a bit of time on it. I do think it is one of the most important. I mean, I think every chapter is important, but this is sort of an overarching question, sourcing office are not in management. And so I think it's correct to spend quite a bit of time on this chapter. There's a reason why we started off with it. But moving on to chapter two, which was written by me, it's on sustainability and how to navigate sustainability in China.

Chapter Two

Laura: And sustainability is not a new topic, but it is no longer optional. It is now being enforced almost everywhere. Starting next year, large companies in the EU, the European Union will be required to report scope three emissions under the corporate sustainability reporting directive with a third party assurance. So they'll need to hire a third party to go in and conduct audits and do reports on their scope three emissions. And so it's a very important chapter. Some people are sick of hearing about this topic, but it's not gonna go away. It's only going to become more rigorous. So Michael, what are your thoughts on this?

Michael: Well, I mean, here again, when you started talking about this book, Laura, you sort of said, why are we doing this? And we said, well, it's not 2010 anymore. It's not 1990 anymore.

Michael: Corporate social responsibility has always been a thing, has always been a factor. In the old days, even way back 40, 50 years ago, some companies had a code of conduct in their sourcing. But there was a huge, let's say, variability factor. You know, some people had zero corporate social responsibility concerns. Some people had very high level of concerns, et cetera, et cetera. Many scandals occurred through the decades. You know, companies like Nike were burnt because they took the attitude of, you know, these were our subcontractors. It's not our fault and it's not our responsibility. And people said, yes, it is.

Michael: And so over time, this sustainability, if you want, or ESG, if you're gonna use that, which has nearly become a dirty word in America, has become part of the sourcing landscape, whether you like it or not. And it's also linked to the fact that that's what the marketplace wants. The market has power. And so when you speak about Europe, let's be clear, the reason why Europe is a focus is because America right now, under the current

administration, is not particularly interested in this ESG thing, in this sustainability, in this aspect of the supply chain. And that's at the level of the administration. It's not at the level of companies. Companies continue to be concerned about buying products in a sustainable, repeatable, responsible manner. And so Europe is leading the pack, if you want, on this. And what I find interesting about that is, a lot of that is about data. And data can be hard to get in China. So the whole verification concept is what you are subject to, if you have concerns about the management of your supply chain in China.

Laura: Absolutely. So we mentioned, or I mentioned, Scope 3. And I think it's important just to clarify for people who are not familiar with Scope 3, what this means. And Scope 3 is related to indirect emissions from suppliers, logistics providers, and even the emissions related to end-of-life product disposal.

Laura: And so for companies sourcing from China, you mentioned Nike and that sort of thing, companies are on the hook for all the emissions from their factories, every factory they use, tier one, two, and three, those that they own, and even that they don't own and don't control.

Michael: Yeah. And that's a, you know, it's a beautiful concept, but it's also a huge burden.

Laura: It's a huge burden because it includes things like packaging, materials, water use, labor practices, I mean, everything involved in creating your product. And you mentioned data. You know, a lot of companies are using AI these days to report on their sustainability, but you need to verify the data at the source. And all those, from the packaging to the material use, to the ethics, to the governance of the supplier, all of that data needs to be verified at the source to be in compliance. And so it's very daunting. It's a daunting task to actually be able to submit these reports on your scope three emissions. And again, EU is starting next year. It's going to be a requirement for large companies. And that is why I did think it was important to include this chapter, because even if the current administration is not too keen on ESG, who knows what's happening in the future. And I do think consumers are moving more towards sustainability long-term and they will continue to demand CSR and ESG compliance, I think, you know. So it's going to continue to be a big important issue.

Michael: I have no doubt that it's going to continue. And as you know, Laura, in China, I mean, it's a global thing again. It's not China-related. I mean, obviously China is a big factor because China is a huge manufacturer. But if you're going to buy in Vietnam, you're going to be confronted by the same. If you're going to buy in Mexico, you're going to be confronted by that.

Michael: And the difference, I guess, with China is that if you're going to be compliant and you need to verify the data, you need to obtain it first. And that data has to be reliable. And who's going to do that? Sometimes in different markets, like in Europe, for example, you can do this at arm's length because you can rely on data that's available on the internet, et cetera. And China is unusually opaque about this kind of stuff. And so that's what I refer to about a burden because it does require an additional supply chain if you want an additional

sourcing management effort, which people may have overlooked in the past. And data, you're familiar with GIGO, garbage in, garbage out. If your data input is inaccurate, then your whole functionality doesn't work. So I think I agree with you. It's important to have included this chapter.

Michael: And it is also intricately related to, again, managing the supply chain. How do you factor in sustainability in your sourcing management?

Laura: Absolutely.

Laura: So Michael, we have covered two chapters now. I think that we should say goodbye and then we can do the next three chapters in a separate podcast because we're already about 40 minutes in. And so let's close this out and we can start again at chapter three in our next episode.

Michael: Great. Works for me. We should keep this manageable and easily digestible for our viewers.

Laura: Right, because I don't wanna rush through it. It's one thing to cover an outline and that is what we wanted to do, but an outline is less interesting. And these are all very interesting topics. So let's not rush. Let's close out here and we can continue.

Michael: Well, I think also a lot of the things we spoke about here including the examples we used, et cetera, are not in the book. So it's interesting because on the one hand you haven't really addressed all the details of each chapter. As you said, you wouldn't do, obviously. What you talked about is indeed the outline, what the chapters are about, but you've also added some granularity in terms of, I guess, human-related details that I think are useful and are not listed in the book.

Laura: We can stay on and just continue recording, but for our listeners and viewers now, let's say goodbye and we will continue next week or next month in our episode six and we'll start on chapter three on quality assurance. Thank you, Michael.

Michael: Great. Thank you, Laura. It's gonna be an interesting next session.

Laura: Absolutely.