

Episode 6 Transcript

Laura:

Welcome back everyone to CPG's podcast, *The Supply Chain of Thought*. I am here again with Michael DeClerk. He is our founder and CEO of CPG Sourcing. Welcome back, Michael.

Michael:

Thank you for having me again, Laura.

Laura:

Wonderful. So today we are continuing our discussion. It's actually the same day, but we are cutting this episode in half because we were having such an interesting discussion on our upcoming ebook. And so that is the topic of this podcast.

We are going to discuss further our upcoming ebook, *An Advanced Guide to China Sourcing and Procurement*. In the first episode on the ebook, that was episode 5 of this podcast, we covered why we wrote the book, and we also covered chapters 1 and 2.

And chapters 1 and 2 covered managing your sourcing and supply chain and whether or not to open an office. That was chapter 1. And chapter 2, we covered environmental sustainability and ESG in China.

Today, we will pick things up at chapter 3 written by Coral Lee. She is our sourcing manager in Beijing.

And this chapter is on the extremely important topic of quality assurance in China. And we call it from prevention to precision.

Michael:

A very important topic. And I think Coral did a great job explaining it. I mean, she is very well-placed to do this. She's got decades of experience in this particular topic.(...) And as you said, Laura, quality is one of the three essentials, meaning that without that element, you don't have a sourcing program.

Laura:

So actually, I might, I'm not sure if I mentioned the three essentials, but let's go through them just in case people don't know what they mean.

At CPG, we use this term, the three essentials, and what it means is price, you know, the best price for what you're getting; quality; and on-time delivery.

So we call that these three things, the three essentials, because you can't have one without, you can't have a successful sourcing program by having one or two and not the third. You need all three to be successful in supply chain management.

Michael:

Yeah, exactly. It's a good way to focus on the, you know, on the bare bones of, you know, what sourcing is about.

You need to secure the three essentials. You know, you need the best price, you know, nobody goes to China to, because their prices are high, quite the opposite.

You need the quality, and there's actually, as you and I spoke about in the past, there's a conflict between the best quality and the best price. Sometimes there is a conflict or they can easily be a conflict between those two things.

And finally, you have on-time delivery, you know, it's, you can knock the first two out of the park, but if your goods arrive, if your Christmas merchandise arrives on in January, you might as well not have done anything.

So yes, three essentials, an important concept.

Laura:

Yes. So this chapter, it covers a lot of details about quality assurance. And I do think people will have to refer to the chapter for specifics, but we have a very good example that is covered that Coral covers in this chapter regarding durability.

Do you want to speak to that, Michael?

Michael:

Well, I mean, I think it's clever of Coral to compare. And if, I mean, what she does, she compares this humble 50-cent kitchen spatula and a high-tech \$5,000 aerospace component and, you know, both demand durability, right?

But you can't leave it there because the definition of what these things mean diverge radically, right? That's, that's what you were referring to. Yes, absolutely.

Laura:

So, yes. So this chapter really does cover what does durability mean? That word is a great word, but you have to, you know, do you need it heat resistant up to 200 degrees Celsius or something much higher?

Michael:

Yeah, exactly. So, so the, it all focuses on the concept of quality, right?

And quality seems again on the surface to be obvious, you know, it's either good quality or bad quality. But in China sourcing, the issue is that quality is what you want it to be, or that's what it should be.

It's about, you know, what exactly did you agree to with the vendor, with the manufacturer? And the second question that you need to ask is, can you make that happen? You know, can you, can you make sure that this quality is actually met?

And of course, around this topic, everything else gyrates, you know, because if you demand a certain quality, then obviously it's going to have an impact on cost and on pricing. And some of it may have an impact on delivery.

But, but the focus of this chapter is really on, you know, can you as a buyer demand a certain quality level on the one side and can you also make sure that it happens and, and Coral details, all the ways that you can, you can achieve this.

Laura:

It's an important distinction, you know, quality is what you want and what you specify because I think people often assume you always want the best quality.

First of all, what does that mean specifically? And second, sometimes I do hear companies say, I don't need the highest quality this or that, I want mid-range, you know, it's okay to use lower quality materials.

It's really all about what the buyer wants and can the manufacturer produce it. So that's why the detail is so important.

Michael:

It's actually, you know, it is true. I mean, people, again, the knee-jerk reaction is people want the best quality, not so.

You know, you could, you know, you could have 24 karat gold kitchen spatulas. Why would you want that? You know, that you might consider that to be, you know, it's not not practical.

I remember an interesting story from way back where we were sourcing bicycle tires for a big US distributor.

And what was interesting is that in those days, China, of course, is a big bicycle market and therefore, you know, you could find many suppliers of tires that met the quality requirements of the buyer.

The problem was that the quality was too good. The Chinese tires were made with what is known as, you know, virgin rubber, which is basically rubber that, you know, comes from the rubber plants, the latex that comes out of there. And it didn't use any recycled rubber in the process and therefore, these tires were incredibly durable.

And the problem with this particular distributor is that they had factored in in their business, you know, they provided the market with a good quality tire.

But because the tire was made, you know, with recycled rubber, you know, after using it for a while, it would wear down and then they would need to buy new ones. And, you know, the market was predicated on that flow.

But the Chinese tires were literally too good. And after a couple of deliveries, the buyer asked us to, in effect, reduce the quality of the rubber that was used in the tires.

Laura:

It's a fascinating example. That was pre my time. I don't imagine, I mean, maybe something

like that could happen again, but I think we have moved away hopefully from models like that. But what an interesting example, you know, who in this day and age, you wouldn't think that something like that could happen, but fast fashion.

Michael:

No, no, I disagree. I think it happens all the time.

First of all, you have you have an increased consciousness about recycling right now, right?

So if you make something with recyclable with recycled products, the quality is not going to be the same as if you made it with in the case of rubber and with quote, virgin rubber on quote.

And so now there is what is the norm is that pretty much everything is made with recyclable products and it's not so much a perverse marketing thing where I'm going to sell tires that will fail after a certain amount of time.

It's pretty much sold on the notion of, hey, I'm using recyclable, you know, products, you know, you see that everywhere on boxes, you know, and you know, it's the same thing with paper.

You know, if you make paper boxes out of wood, which is the best pulp that you can get, pulp being the raw material for paper, you're going to have a very sturdy box.

If you make it out of recycled, you know, paper products, quality is not going to be as good, but people want recycled, you know, it's true.

It's true from many, many different products in my opinion.

Laura:

It's that's interesting because it hasn't been my experience. But of course, I trust you in your experience because I don't associate products made with recycled materials as being inferior or lower quality whatsoever.

You know, I have coats made of recycled plastic bottles, a company called Earth Tech from about 10 years ago. I still wear them today, but I trust you. I'm sure you are correct. And so that is an interesting nuance there.

Michael:

But it's also interesting, Laura, because the definition of quality comes into play, right?

So you bought a coat or a jacket made out of recycled bottles in effect, which obviously is good quality. But compared to what compared to cashmere, do you see what I'm saying?

And the answer is yes, it's better than cashmere. You know, it's more resistant. You know, you try to you put an abrasions test on that material versus cashmere, you'll get better results.

So what is your definition of quality? You know, some people will say, well, our cashmere is much better, you know, based on what parameters? And now you're back into the topic of quality.

Quality is what you want it to be. And therefore you, the buyer, you decide what quality is and then you have to make sure that that's what you get.

Laura:

Yes, and I think this conversation, you know, it's part of the reason why we wrote the chapter or Coral wrote the chapter.

And so it's all issues like this. I think we should probably close and move on.

You know, in the chapter we go over or Coral goes over lots of details about how our three tiered quality assurance system at CPG—tier one regulatory compliance, tier two functional performance, tier three aesthetic precision.

She also covers things like how to use tools like AQL tables, inspection specification sheets, and then we also have a system that's called PDCA plan, do check act. This is a cycle we implement at CPG.

So it's, there's a lot of intricate detail in this chapter, but it's all to address basically the topics we've just been discussing here about, you know, quality is what you want it to be, you know, how to.

Michael:

Yeah. And quality is it in the discipline of your procedures is what pretty much guarantees the outcome, you know, and, and again, what's also worthwhile, perhaps mentioning about this chapter—and notice Laura, the product that we are talking about is irrelevant. Absolutely.

The process of quality assurance that matters, you know, whether you make, as you said earlier, the kitchen spatula or the aerospace component, you're going to have a quality system in place and it's going to look more or less the same.

It's the details that become very, very important, you know, in order to, to control the outcome. Anyway, it's an interesting, it's a fascinating chapter.

Laura:

Absolutely is. And that's, you mentioned, you know, that it doesn't matter what the product is, and that is 100% correct.

We get this question a lot. You know, do you have experience in XYZ product? And, you know, our response is we are service specific and you know, it's the processes and the procedures specifically related to quality assurance.

And yes, they will be similar, you know, some products, some chemicals might need two days of lab testing. Other products might need multiple mid production inspections, but overall the processes applied are very similar across all industries to prevent issues from occurring and to ensure you're getting the quality that you expect.

Michael:

Well, and also what this brings up is quality, the expertise needed to determine what the quality must be and ultimately through your management of the sourcing process, what the quality will be. That expertise comes from whom?

It comes from the buyer, because if the buyer doesn't know, what is a good quality product, you're back into this, you know, what do you mean by quality, you know, you know, is a bamboo product good quality, you know, that type of thing.

The buyer must know. So the buyer has an, if you want an accountability and an obligation to understand what they are buying.

And this is interesting because a lot of buyers that buy off the shelf products don't really have a deep understanding of quality, right? They tend to say, look, you know, whatever it is, as long as it kind of more or less looks like this, etc.

So there's a bit of a laziness factor in there. And this tends to apply to retail buyers, you know, buyers that buy finished products, typically from either manufacturers or distributors.

But if it is your own proprietary product and you have it manufactured in China, you the buyer, you need to know what the quality is. And the other, who is the other person that needs to know? The other person is the manufacturer.

They need to know how to make a product at the quality that you the buyer requires.

And so back to your point about being product agnostic, what we CPG have developed over decades is very deep expertise on how to implement the process needed to ensure that the product comes out the way it should be, no matter what the product.

And so whenever a client says, do you have expertise in garments or in extruded plastic products, etc., to a great extent, the answer is it's not relevant whether we have expertise.

In most cases, interestingly enough, because we've been doing this for so long, we do, but the point is it's not relevant. What's relevant is do we have the know-how to make sure that you're going to get what you want, what you bought.

And again, this book goes some way towards explaining that know-how.

Laura:

Yes. And I think just for people who are maybe just starting out, if you're listening, you might think, oh, I'm not sure exactly what I want.

And I do hear this quite a bit for people who are new to China buying and China sourcing. And so in those instances, even if you don't know how to define it, what we can help with the middle stages of, you know, I will say, well, do you know the brand, if say you want to buy a bag or produce a bag or a mug or whatever it is, do you have an example that you can send to our office because then at least our engineers on staff can help kind of reverse engineer or look at the materials and help you put your quality requirements in writing because oftentimes the buyer, let's say our client knows what they want.

They just don't know what kind of material it is and all the details. And so, yes, the buyer must know. We can help putting what you like into writing and then identify suppliers based on that.

Michael:

Well, that's an excellent point, Laura. I'm glad you brought it up because it is true that if each buyer had to have a PhD in quality of whatever it is they're buying, you would have very few buyers.

And in reality, there are people that will buy a significant amount of different kinds of product that range from plastic to rubber to leather and their genuine buyers, they're concerned about quality.

And so what is their standard? And you are correct that the way they would normally tackle that issue is by using a product for reference. And of course, what we then what the CPG team does for them is they translate that sample, if you want, into a quality specification for the client.

And that step is important because now, you know, we're talking about the three essentials, but now you have the next step, which is the price, you know, and if you say to somebody, you know what, I want to buy this little gizmo in blue, what's the best price?

If you're not very specific, every Chinese manufacturer knows that they're competing against other Chinese manufacturer in order to get your order. And so they're going to cut out everything that isn't specified and give you the best possible price in order to get the order.

And so you have that, you know, unexpected consequence of that tends to be quality.

And there is this story, I don't know if you remember this, it's quite a few years ago, of Mattel that had, there was a huge recall of these little Mattel cars that they had made in China.

And the recall was because the cars were painted using lead paint. And of course, these were for children, put their cars in their mouth. You don't want lead paint, but Mattel didn't specify that.

They specified that the car had to be painted, but didn't specify that it couldn't be lead paint.

And so they cried foul initially, if you read the New York Times at the time, saying that the Chinese manufacturer kind of cheated them.

But when you go through the fine print, you realize that Chinese manufacturer were confronted by huge volume, big, big order of these little cars at the lowest possible price.

And one way to cut corners is to buy the cheapest possible paint, which turned out to be, guess what, lead paint.

And so there's a detail, a quality detail that cost, that was very costly for Mattel at the time.

Laura:

It's a great example and also a great segue into our next chapter, which is on contract

negotiation, because at CPG, when companies work with us, every purchase order attached to every purchase order is a product specification sheet and an inspection specification sheet.

Documents that detail the product specs, the inspection requirements—those documents have been signed by our client, the company purchasing, and the suppliers. It is attached to the purchase order contract and it provides a lot of protection and addresses the issue you just mentioned.

In that example, I should point out though that these documents are somewhat not fluid, but they're always being improved upon. So in that example, they probably had a product specification sheet with colors and all these details.

But after that issue, you know, at CPG, had we been working with them, we would have gone back to that product specification sheet, put in that detail, cannot be lead paint. And there would probably be an inspection component to that as well.

And so I just wanted to just highlight that, you know, those PSS, we call it a PSS and an ISS that is incorporated into the formal purchase order agreements with suppliers in China for our clients.

Michael:

Yeah. And again, I mean, you're talking about PSS, ISS, these are all functionalities of the quality assurance program and attention to detail, you know, in the PSS, there are specific concerns about things that are, you know, zero acceptability.

We cannot accept any of this. So you have different, you know, levels, which again, Coral explains in her chapter, but, you know, as you move, as you mentioned, we're moving to the next issue, which is about, in effect, the vehicle of, you know, of all that sourcing process is what it's a contract, right?

And so, as you said, it's a good segue into chapter four and contract negotiations and that was Coral as well. Am I correct?

Laura:

Also coral. Yes. And it's such an interesting chapter because again, this is an advanced guide.

And why are we talking about contracts on this advanced guy? It seems pretty straightforward, but I've been very surprised by the number of times I've communicated with a company that's been buying from China for a long time or for at least a few years. And there's actually no formal agreement in place.

And so these buying relationships have relied solely on pro forma invoices, WeChat agreements or exchanges, and companies can really run into problems when doing this.

Particularly, you know, and when are they going to run into problems? It's related to the last chapter, you know, if, you know, if details were not specified in the agreement, if there's quality issues, but then there's no contract to enforce all of this, then it's a huge problem.

So this chapter four also again, written by Coral—contract negotiation in China sourcing.

Michael, over to you.

Michael:

Well, you know, it's again, you put it very nicely, which is a lot of—and it circles back to the point you made in our in our previous podcast about seasoned buyers, you know.

And to a certain extent, the more efficient the Chinese manufacturers are about communicating about, you know, forging strong bonds with their clients, the more people let their guards down and they kind of say, you know, I just sent I just sent an email reordering this thing, but—and this to a certain extent can be done as long as it's done under the umbrella of a contract and an enforceable contract.

And a lot of people surprisingly, you know, don't don't bother. And that exposes them to risk.

And it's in my view, what's interesting is that it's not so much a risk where you can enforce your contract by going to court because if you get to that stage, frankly, you lost already. You your business is going to take a big hit.

So the objective of these contract isn't so much the legality of it in my ability to have recourse in a court of law in case you know, it's yes, it's part of it, but that's not its main function.

Its main function is clarity. Its main main function is that both the buyer and the prime seller, the manufacturer are on the exact same wavelength about who's in charge of what, what, you know, what is being made, what are the quality requirements, what are the delivery requirements and even details such as, you know, what if you're late, you know, what are the penalties and potentially, you know, issues related to that.

And it's all about you agreed to this and there is no possibility that you can deny that you agreed to this because you signed up on it. Right.

So once that accountability is in place, you already eliminate a huge, a huge portion of what can go wrong with your supply chain management. You don't eliminate everything, but you eliminate a big part of it.

So that's why there's a whole chapter on this issue of contracts.

Laura:

Absolutely. We have recently worked with a company that had an issue after production with a product where I think there was even fraud involved and we were trying to help this company sort of recoup.

I think it was about a half a million dollars and they might have gone to court even though, as you said, you know, if you get to that stage, you've already lost because, you know, you essentially, you had an order that didn't conform or you had no order at all or the goods disappeared.

So by the time you got to that stage where you might want to take a company to court, it's too late.

And that's why I think your point about, you know, that is not the reason for the contract. The reason a contract is more preventative.

But in this example, this very recent example, I was shocked to find out that there was no formal agreement, you know.

So there was one instance when this company was prepared to go to court to see if they can recoup half a million and there was no agreement.

And so I think that is a good point. You know, you.

Michael:

Well, there was no there was no contract. There was both the buyer.

Well, the buyer would argue there was an agreement and now you start to fiddle with the legal, the legalities of the word agreement versus contract. And you inevitably step into the cultural chasm of China because, yeah.

So from your point of view, Mr. American buyer, you had an agreement and you know what?

You could argue in in a court of law in the United States that what you wrote on the back of a napkin in a restaurant is a contract. You could make that argument and you might even win, but not in China.

You know, in China, a contract is a pretty well-defined thing, which is what this this chapter talks about.

Laura:

Right. And so we do go go through the different kinds of contracts in China.

Speaking of enforceability, you know, we do mention this term about a chop. You know, you need a good contract and we go through the different kinds and we talk about what should be included in the contract.

And most companies need exports to experts, not exports, experts to help them with the language. Chinese and English.

It's also important that the contracts are chopped in China. This is crucial. You know, not only should a contract be signed, but it must have a it must be stamped with an official company seal for it to be valid in court. Correct, Michael.

Michael:

Yeah, it's kind of amusing because you try to explain that to a company based in Maryland, you know, like, hey, where's your chop? You know, and people go, what are you talking about?

And but again, yes, technically speaking, in a court of law in China, if your contract is not doesn't have a chop on it, it's frankly, even if it has the signature of the of your legal representative, the legal representative of the firm, there's a chance that it can be thrown out because it doesn't have a chop.

And that's something that a lot of people don't know, frankly.

Laura:

I think most people do not know that.

So in this chapter, we outlined the six core pillars of a strong China sourcing contract.

Michael, do you want to go through those briefly?

Michael:

Yeah, actually, before I even go through those, I'm mindful of people again, a lot of them are seasoned buyers who pretty much are bringing up the issue of trust. And they say, look, I did a good job checking the vendor, the manufacturer, the supplier, and I trust them. You know, therefore, these all this Google de gook about contracts, frankly, I don't need it.

I've worked with these people for years and, you know, their word is their bond, you know, and it's an interesting thing because way back, I'm talking about 19.

Late 70s, early 80s, I got involved in a contract where there was no contract. So doing precisely the wrong thing on an exclusivity deal where, you know, we had placed a very large order on the basis of securing an exclusivity for the product. And that was done with a handshake.

And so people would say, well, hey, you're breaking your own rules.

But in my defense, in those days, I'm talking about a long time ago.

And as it turned out, in this particular example, two years later, the Chinese manufacturer was confronted by multiple American companies that wanted to buy that. And they were prepared to pay quite a lot more than what we were paying.

But we were covered by an exclusivity contract, which was a handshake and therefore very vulnerable as a contract.

And I remember approaching the buyer who, luckily for us, think about handshake is you've got to make sure it's the same hand. Lucky for us was the same guy.

And he tried to explain to me, well, you know, we can, you know, basically trying to get out of that exclusivity.

And I looked at him and I said, do you respect your word? And that's all it took.

The guy looked at me, froze for a second, and he said, of course I do. And so the contract was respected for one more year.

And our competitors were foiled. They couldn't buy. And we, you know, we made tens of thousands of dollars of additional profit for one more year.

What happened, of course, afterwards is that the guy said, hey, let's ratify this contract in writing.

And then he put all sorts of clauses about quantities and everything else, which is what a normal exclusivity contract would have had anyway.

And but the point is, even though you will find very trustworthy counterparts in China, that, you know, basing your sourcing program on that assumption is not a good strategy. You need good contracts.

Laura:

Absolutely. And Michael, you have decades of China experience. And even in the 1980s, I think you had been in China for a while.

And so this example, you're not advocating Handshake's solution. I think you're talking about trust, but also I think there's an important distinction here.

You mentioned the handshake was the contract. I think the handshake was the agreement. Is that correct? Not the contract, but you needed a written contract to enforce the agreement.

Michael:

So I at the time, I wanted a written contract.

And, you know, as many of these deals are done over dinner, we were placing a very large order, half a million dollars for that particular product. It was very one of the largest orders that anybody had ever placed in China.

And there was a contract, obviously, a purchase order slash contract for that.

But I had asked for an exclusivity contract to be also produced and signed. And the Chinese manufacturer came with the product contract.

But when we talked about exclusivity, he said, no. And he said, my word is my bond. We can shake hands on this and I guarantee you exclusivity.

And at the time, I didn't like it. But I also had to be mindful about face.

And you can't look at somebody and say, I don't trust you and, you know, and then engage in business with them.

So I said, fine, I do trust you. And this was at dinner. There were 11 people there or something. So I shook hand with the guy in front of everybody. Everybody knew what was going on.

And so the exclusivity component of the deal was done that way against my better judgment.

But again, this is more than 40 years ago. It was risky.

And the reason why we survived it, as I said, is because it was the same guy on the one hand. He can't say, well, I don't know about any handshake.

And secondly, he was a man of honor. He was somebody who respected his commitments. And frankly, although people like that still exist in China, and there's many of them.

But there's enough of the other type around that pretty much force you to recognize that the safe approach is to have written contracts.

Laura:

Thus, the reason for this chapter, just to be crystal clear, should one of our, if one of our clients was confronted with a similar situation today, I think we would strongly advise them to not proceed with an exclusive exclusive agreement based on a handshake. You know, we would want something in writing.

You did take a risk. The rent of the timing was different. It was decades ago.

But that's a really interesting example. And I do think...

Michael:

And I was lucky, Laura. I mean, let's face it, the element of luck played a role. But here again, luck is not a strategy. You know, who wants to build a sourcing platform based on luck? It doesn't work that way.

But anyway, you were asking me about the six core pillars, which the chapter explains quite well.

And I can go through them quickly. The first one is bilingual product specifications, signed, sealed and detailed. And so this is the PSS. And this is the typically the quality assurance manager of the manufacturer of the vendor that has verified those and signed up on it.

And that signature is very important.

And then you have payment terms. That goes without saying.

Delivery and INCO terms, they have to be clearly stated with the port and the timeline details.

The number four is the quality clauses, which are linked directly to the inspection protocols. And that's what we call internally the ISS, inspection specification sheets. And they're attached to the contract.

Number five is penalties and remedies. It sort of deals with the what if. You know, what if there are defects, delays and nonperformance?

And finally, number six is dispute resolution, where you would pick a neutral legal venue to be able to enforce the contract.

And typically that would involve depending on the size of the contract. In the old days, we would use Hong Kong arbitration as a typical venue, sort of neutral.

Of course, Hong Kong is becoming a little bit less neutral right now.

But if it's a big contract, you know, Stockholm would be used as as the enforceable jurisdiction.

Laura:

Interesting. Okay, so six core pillars of a strong sourcing contract. You just went through them.

Coral in this chapter also covers supporting contracts, supporting agreements that are equally critical.

The first that she covers or one that she covers is called an NNN. It's used to protect IP. It's more comprehensive than an NDA. And it stands for a non disclosed, non use and non circumvention. Another very important contract, especially for product development.

Clients are molding and molding tooling contracts to ensure that you retain ownership of your molds and your custom assets. Should you want to maintain ownership? And I think that's the goal of many companies.

Many companies go into China sourcing or manufacturing in China not even knowing that they need these types of agreements.

And then there's also master service agreements that tie everything together when you're placing repeat orders from one supplier over time.

Michael:

Yeah, and that's that's what gives you the opportunity to send an email saying next order hundred thousand units for July delivery that falls under that master contract.

So it's not as if you have to go ahead and do the chop and everything each time you place a little order when you're in a business where you repeat orders, you can use that methodology.

Laura:

Wonderful. So, Michael, I think we should probably move on from the contracts chapter. Any final comments on this before we move on to chapter five, which is communication.

Michael:

No, I mean, again, the bottom line is that this whole thing about this chapter about contracts is about protecting your investment.

And, you know, let's face it, you're investing a lot of time and money in your sourcing exercise. And you want leverage and you want clarity. You want enforceability.

You want to make sure above everything else that your supplier is on exactly the same wavelength as you are about what you seek to do.

That's what you could actually say that the contract is a form of communication, which is a good segue into the next chapter.

Laura:

Yes, absolutely.

I think chapter five written by our client success manager, Chris Voles, is an extremely important chapter. It's called communication as strategy.

It's important because I think many people take excellent communication for granted. And without good communication, nothing else that we've talked about in this episode or these episodes could even work and be successful.

You cannot have a solid contract or even a product specification sheets. You can't ensure quality without good communication.

So it is really part of must be part of your overall strategy at CPG. It's definitely part of our business model. And it's one of our core values being excellent communicators.

So I'm really glad to that we're discussing this and detail and giving it the attention that it deserves.

Michael:

Yeah. And again, it's it's it's also interesting to see a chapter in such a book about communication because communication seems to be a very basic thing.

You know, it's like saying, hey, if you do business, you got to communicate properly. Duh.

But as George, as George Bernard Shaw would say, the single biggest problem in communication is the illusion that it has taken place.

And and to a certain extent, this chapter deals with the prevention of that communication failure, that illusion.

You know, you think you made yourself clear, but in reality, you're not you're not very clear at all. And and if you're not clear, everything starts to fail.

You know, and I repeat, there's nothing new about the importance of communication. Everybody in business knows how important it is.

If anything in China, it's more challenging because you're dealing with a different culture and as well as a different language.

So as soon as you're dealing with a different language, you're you have this translation risk. But the biggest problem is really the culture.

You know, when in China, it's quite common to sort of say, hey, so you understand that.

And people will say, yeah, but in reality, they're being polite. They didn't really answer.

They kind of said more or less, I figure what I figure I can clarify this later or whatever. I'm not going to insult you by saying that you didn't explain it properly. You know, that type of thing.

So miscommunication happens. Once it happens, the domino impact on on your supply chain management can be can be very, very detrimental.

So Chris wrote a whole chapter on this, and it's a very interesting chapter about a topic that we all think we know everything that needs to be known about it. But you'd be surprised. About what you might discover in this in this chapter, in my view.

Laura:

Yes, I agree.

And so with miscommunication, you know, in relation to the supply chain, communication breakdown often changes. Downstream, you know, so any issue related to delayed shipments, rejected products, quality disputes, all these issues that arise when you're tackling this complex topic of sourcing from China, they they almost are kind of like a

It can all be attributed to some breakdown in communication earlier in the sourcing process.

And so that that is why this chapter is so critically important.

And you mentioned this whole compounding effects of culture and language, which, you know, communication is so important in business in the United States amongst English speakers.

But, you know, you add that extra layer of English as a second language interpretation, things like that. It makes it even more complex when trying to ensure excellent communication when dealing with suppliers in China.

Michael:

Yeah plus you have distance, you know, when you when you meet face to face with somebody, your body language tells a big part of the story.

When you when you deal in a video interface, some of that is lost.

When you deal in audio, all of that is lost.

And when you deal in writing, you don't even have the audio element of inflections and everything else that could help you along, you know, sir.

You know, it's the situation is ripe for miscommunication. And sometimes it it's borderline absurd.

I think I told you that story again way back in the 80s. We had placed a big order of bicycle pumps in Shanxi province.

Actually, we had a fantastic price, the quality those guys made bicycle pumps.

They just had to be modified to to our specifications. We had no concern about their technical ability. Everything was fine.

And I went to the factory to do a pre shipment inspection.

And they had painted all the bicycle pumps in red, even though the order said blue and it provided a Pantone number to confirm the exact type of blue we wanted.

And I looked at the factory manager and I said, you have thousands of blue pumps. What are you doing? Look at the contract. It says blue.

The guy looks at me with a big smile on his face and he says, but we thought Americans like red.

And he was genuine and he was full of goodwill. And he had to redo the whole order in blue.

And, you know, and, you know, and you couldn't be angry at the guy. He was super friendly. The pump, the quality of the pump was excellent. Everything was great except the color.

And, you know, I shook my head and I was wondering, I said, you know, again, this is in the 80s.

So it impacted me early in my, I guess, learning curve about supply chain management.

You think you've covered all your bases because you were specific in your contract and everything else. And yet, which is why communication comes last in our book, communication can never be taken for granted.

Laura:

Absolutely. And that's a hilarious story. I mean, I'm sure it wasn't so funny at the time, but, you know, this chapter covers, you know, it's not about being clear orally or in writing.

It's about being consistently clear, you know, across teams, languages, cultures, time zones, documentation.

I mean, you need to be clear everywhere.

And then there's also, as you mentioned, again, the cultural component.

So Chris really covers all these topics about saving face, which is something I think we mentioned earlier.

In China, you know, people don't like to say no directly. You know, you want to try to allow the other person, the person you're speaking with, sort of save their reputation.

I'm not sure if I'm explaining this well, but, you know, so, for example, say that in that example, should the, if the supplier didn't have the color paint you wanted, they might say yes, yes, okay in person, and then go paint it, paint the product in completely different color that they had on hand, you know, which enabled them to save face.

And so this is all covered in this chapter, you know, you can't just rely on one form of communication, you need multiple. And also meeting in person is important too.

And when you're in person, it's not just direct translations of language we're dealing with, you're managing interpretation based on culture.

Michael:

That's right. And, and again, in, it also depends on the size of the business you're placing.

If you are dealing with, you know, tens of millions of dollars, you tend to deal with bigger Chinese enterprises, then you tend to have a little bit of a political component that feeds in because, you know, in China, the, you know, power devolves from politics and, and you, you know, you need to be much more mindful of all that because, because if the head of the factory has a strong political profile, he needs to save face and, and you need to be very much aware of what that means in his book.

And that's a great inspiration because when you meet somebody face to face, as we all humans prefer to do, you know, when you do business, a lot of, you know, a fundamental aspect of business is trust and trust is something that you establish among individuals, and you tend to do this most effectively face to face in person.

So when you talk about communication and you say something to somebody in China and you see their reaction, immediately, you know, something's wrong. And, and then that gives you the opportunity to go deeper and find out what exactly is it that caused the guy to, to pull back or the guy or the lady to pull back.

And, and that's when you uncover problems that you would not have been able to uncover from a distance.

So all of these concepts in the book are linked and it's the integrality of the five chapters that provide you with this advanced notion of how to manage your China sourcing program.

Laura:

I'm glad you linked it back to the first chapter because I was going to make that connection as well.

I think with these days, you know, we all use AI, you can translate things directly. That part is easy, you know, but there's so much more to communication, face to face, interpretation, the cultural layers and nuances.

And it's very difficult, you know, Chinese culture is, is old and very vast.

And I've only studied China for about 20 years now, you have many more decades of experience than I do. But you, most people need need assistance in really understanding these cultural differences in the ways that people from China and people from the Western world communicate.

Michael:

And again, more so if you have a big stake in the sourcing program, you know, and I want to be clear, you know, if you're, if you're buying something on Alibaba, or if you're online and you're ordering something from Temu, you're technically buying from China, but frankly, you know, you're not really sourcing.

All of that is linked to direct what we call direct sourcing, which is buying from Chinese factories based on your specifications.

Because China has a vested interest in communicating as well, you know, they, you know, they need to be very good at selling their product marketing their product giving you confidence building trust in their own brand and, and all of that.

So that you the buyer, you don't have to be worried about all of these issues that we talk about in the book.

But if you're the kind of buyer that buys directly from Chinese factories, based on your specifications, you need to read this book, and you need to understand the complexities involved that are easily tack tackleable, if I can use that for as long as you're aware of them.

And, and I think that's what, you know, to a certain extent, we call the advanced part of the book, it helps you if you can master all these things, you're going to be fine.

Laura:

I have to push back on one point. It, you know, it might sound easy, you have the knowledge, knowledge is power. It's implementing all of it is not so easy.

It does help to have a company with decades of experience to help you implement all these steps because even knowing it.

You know, implementing all of these, basically, what we discuss in the book is quite difficult. So that's

Michael:

Well, I mean, you know, the chapter chapter one is, is deals with what you just said, implementing, you know, and, and all I'm saying is that the book contains the knowledge necessary to succeed.

It doesn't mean that the book contains the team necessary to succeed. That's, that's up to you.

You know, you, but you start with knowledge, right? And you're right, knowledge is power.

Once you've got that knowledge, how do you make it work for you? Well, that depends on each and every one of the readers, because it'll be a different equation for all of them.

But But just like a buyer needs to know the quality of the product they're buying, a business leader needs to know what's involved in the process of supply chain management and sourcing.

Only then get a business leader say, pay attention to this. Don't forget that. Make sure you cover this base, etc, etc.

Laura:

Right, right. Make informed decisions. Absolutely.

Michael:

Especially Laura, in a world such as the one we live in today, where you got to be agile, you got to be ready to, you know, change course rapidly, depending on things that you frankly cannot control, such as geopolitical forces, tariffs and things like that.

Laura:

Covered in episode four of our podcast for listeners who want to go back.

So wonderful. I think we should close here.

We will keep everyone tuned in. You know, when the, when the book is published, we will be sending email blasts and we'll get it out to the public. And so follow us on YouTube and all the platforms. Come visit our website to download the book and purchase the book.

When it does come out, it should be in the chat.

Our recommendation to readers is to treat this as a handbook. You know, it's not the most exciting novel. It's not a novel at all.

It's a handbook that is not meant to be read from start to finish, but based on your needs, or each company's needs.

and then revisit it when you have another issue. That is what we would recommend.

Any other comments you want to share?

Michael:

Yeah. Well, I would just add this.

After you read this book, if you've got comments and suggestions and, you know, ways to improve it or perhaps topics that you feel we haven't covered properly, we would love to hear from you guys.

Laura:

Yes, absolutely. We think of this as the first iteration. We are always focused on continuous improvement.

And so we know we're going to be going back in making edits and additions. And so this book will continue to be a work in progress.

And so absolutely, we are open to feedback. We do hope it's helpful.

We are confident that it will be helpful for companies trying to navigate this very difficult topic of sourcing internationally.

And we are very thankful to have you here today with us. And we hope you made it to the end of the chapter.

Should you have any questions again, any feedback, we would love to hear it.

Michael:

Great. Well, it was fun interacting with you on this book, Laura.

Lots of it sort of brought back memories of challenges of the past and funny things that occurred as we were managing supply chains for ourselves and for other people.

Laura:

Yes, Michael, you have had forty seven plus years of dealing with these topics.

And I think our next book is should be a topic of a book of stories, all the crazy stories and anecdotes of your experiences in China. I think that would be really hilarious.

It's not what we've done here completely different. But next time, because you do have a lot of those fun, fun examples.

Michael:

Yeah, well, maybe that would involve me doing a lot of the heavy lifting on the writing. So don't count on it coming out immediately.

Anyway, it was great because, again, talking to you, we interact. These stories come out. Right. I have to sit down and write them. I think it's a it's a different kind of effort.

Laura:

Well, thank you, Michael, for joining us here today. Thank you, everyone else, everyone listening for joining us for this podcast episode supply chain of thought, or I should say two episodes on this upcoming ebook.

We're very excited about it. And we will be back in touch with another episode on a completely different topic topic.

We are also open to suggestions for new topics to cover. So feel free to send them our way.

Again, Michael, thanks so much for joining and thanks for all the fun and insight insights that you brought to this discussion.

Michael:

Thank you, Laura. Appreciate. I appreciate chatting with you on these topics.