

AN ADVANCED GUIDE TO CHINA SOURCING AND PROCUREMENT

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ABOUT CPG

(CPG SOURCING)

Founded in 1978 as China Performance Group, CPG is now branded CPG Sourcing—Competitive Purchasing Group—to reflect our work beyond China while preserving our core strength: China sourcing and supply-chain management. CPG is a division of TransContinental Trade & Finance Corporation. With an on-the-ground team in Beijing and inspectors across China, we support supplier identification, contracting, QA/CSR compliance, and ongoing supplier management for international buyers.

ABOUT THE AUTHORS

Michael De Clercq, CEO

Mr. De Clercq is the founder of CPG. He brings over 40 years of hands-on experience and has been personally involved in all aspects of China supply chain management including negotiating contracts, establishing quality control structures, strengthening supply chain management, and securing better financial terms.

Laura Dow, Business Director

Laura joined CPG in June 2018 and manages growth and its key components: business development, marketing, client success, and finance. In her role, she establishes company growth objectives, creates and implements strategies and procedures to optimize performance, and oversees budgets and financial activities. Laura began working in China in 2006 as a Peace Corps volunteer in Sichuan province. She holds a Master's in International Affairs and Chinese Studies from Johns Hopkins

School of Advanced International Studies (SAIS). Ms. Dow speaks English and Mandarin fluently.

Coral Li, Sourcing Manager

Coral Li graduated from Langfang Normal University with a Bachelor of Arts in English and has a major in International Project Management from the University of International Business and Economics. Coral joined CPG in the beginning of 2011 and became qualified in various disciplines such as product research, vendor qualification and management, order management, logistic management, client communication and client trip support. The team she manages is mainly focused on sourcing, quality assurance, logistics and research of industrial products, such as boiler units & attachments, mobile fence & fittings, electrically-operated gates & fittings, castings, wind-solar hybrid streetlights, etc. Coral speaks Mandarin and English fluently.

Jesse Alterman, Operations & Insights

Jesse joined CPG's team in 2022. Before CPG, she worked with thousands of Chinese students and developed a passion for international relations. She holds a Masters in Finance and Accounting Certification from Liberty University. Her role includes analyzing marketing insights and operational accounting. She is responsible for CPG's publications, marketing endeavors, accounts payable, and accounts receivable.

INTRODUCTION

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Why We Wrote This Book

When I founded CPG in 1978, we were primarily importers. Sourcing products from China was a challenge - not for the faint of heart. Chinese manufacturers were not yet focused on exports, and international supply chains were still in their infancy. Success required persistence, patience, and agility.

In those early years, we sourced many of the same products that South Korea and Taiwan were selling to the U.S. market: footwear, furniture, garments, bags, accessories, and more. Prices were highly competitive, but China was not yet regarded as a reliable or credible supplier, not even by Chinese manufacturers themselves. We had to bridge that gap, first for our own business and later for our clients. Placing orders required not only securing U.S. buyers but also persuading Chinese factories to produce the goods and then ensuring consistent quality and on-time delivery. We were pioneers in the truest sense.

Over the past 47 years, we have developed deep expertise in China sourcing and supply-chain management—a skill set that has been applied across a wide range of industries.



CPG CEO Michael De Clercq in China circa 1978

Our experience spans CPG (Consumer Packaged Goods), industrial goods, agri-food, and high-tech supply chains. It includes the automotive sector, with its emphasis on lean manufacturing, as well as retail and e-commerce, where efficient distribution is essential.

Through this work, we created a methodology adaptable to the needs of a diverse client base and built a comprehensive suite of best practices that encompass sourcing procedures, market research, problem-solving, crisis resolution, risk prevention, and continuous improvement. These capabilities have enabled us to help clients source an extraordinarily varied range of products—from electronics to leather goods, industrial machinery to garments, jewelry to chemicals, sporting goods to rubber tires, arts and crafts to building materials, pharmaceuticals, footwear, and much more.

What works: Although supply chains and products differ, the processes required to manage them effectively are remarkably consistent. Successful supply-chain management depends on a well-orchestrated interface between buyers and suppliers, and on the disciplined application of proven systems and procedures.

What does not work: In our experience, most failures or inefficiencies in supply-chain operations stem from breakdowns in human interaction. In China, these challenges can be amplified by cultural differences, language barriers, and sheer geographic distance. As long as human beings remain central to supply-chain execution, these issues will persist. The only reliable solution is a capable, on-the-ground professional team.

At CPG, we offer two primary service categories:

- **Sourcing Services:** Focused on managing orders so that every project meets what we call “the three essentials”: the right price, the right quality, and on-time delivery.
- **Advisory Services:** Drawing on decades of accumulated expertise, these services help clients identify opportunities, develop efficient methods for accessing supply chains, prevent problems before they arise, and obtain the data required to verify supplier credentials and supply-chain integrity.

We wrote this book because, despite the critical importance of China sourcing, we have yet to find a resource that covers these topics with the necessary depth and practicality. It is a hands-on guide to help buyers navigate the complexities of sourcing in China. It is structured as a reference manual, allowing readers to move directly to the sections most relevant to their needs.



CPG Office in Beijing

What You'll Learn in This Book

- **Chapter 1:** Managing On-Site Sourcing Operations: For companies planning sustained, long-term supply-chain management in China involving more than \$10 million per year.
- **Chapter 2:** Navigating Verified Sustainability in China's Supply Chains: For those concerned about the ESG (Environmental, Social, and Governance) implications of their sourcing.
- **Chapter 3:** Ensuring Quality Assurance: A critical aspect of sourcing that affects every buyer.
- **Chapter 4:** Mastering Contract Negotiations: Best practices for order placement and issue prevention.
- **Chapter 5:** Optimizing Communications for Client Success: A key topic when managing cross-cultural interactions involving different languages.

This book is intended for experienced buyers, particularly those sourcing customized or complex products directly from manufacturers. It is written for those seeking the lowest first cost while still prioritizing quality and on-time delivery. Yet no matter your level of experience, if you care about getting your product right, we believe you will find this book valuable.

Michael De Clercq, CEO

CHAPTER 1

MANAGEMENT OF ON-SITE SOURCING OPERATIONS

BY JESSE ALTERMAN

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Successful direct China sourcing requires a strong on-the-ground presence to prevent serious financial, quality, Corporate Social Responsibility, and compliance risks. Establishing one's own dedicated office can make sense for large importers but be aware of complex legal compliance and significant management burdens around staffing, training, retention, and ethical oversight. Other considerations include location decisions, human resources concerns, and legal format of the office structure.

Throughout this book, we use "due diligence" to describe the systematic work of verifying suppliers, factories, and transactions in advance, so that risks in these areas are identified, measured, and managed rather than left to chance.

Introduction

In China sourcing, where the line between profit and disaster can be razor-thin, one shipment can make your year or sink your margins. To uncover what separates success from costly mistakes, I spoke with CPG management, professionals with decades of China sourcing experience. Their verdict was clear: serious importers must have either their own sourcing office or must be represented by a professional sourcing agency with a robust on-the-ground presence to carry out continuous due diligence. This chapter lays out key considerations of setting up a China sourcing office. We'll explore the real costs, hidden bureaucracy, talent challenges, and cultural realities of running your own sourcing operations in China. We hope this will help you to choose and make an informed decision as to what best serves your business. Build your own China office or hire a professional sourcing agency?

- **Management:** Excellent management, including the routine execution of detailed processes and procedures, is essential to address the realities of the China marketplace, prepare for the unexpected, and mitigate risks. All of this must be done while addressing and leveraging the buyer's vision. The larger the sourcing program, the more important the management function becomes.
- **On-site operations** are necessary due to the risk/reward ratio of sourcing directly from Chinese factories. The reward is clear: the buyer will get low-cost, quality goods. But there is also a multi-faceted risk dynamic, including:
 - **Financial risk:** The buyer usually commits upfront funds to the manufacturer to set up production of the order. In other words, the buyer owns the goods or parts before they are made.
 - **Quality and delivery risks:** What if you receive a bad shipment that you cannot sell?
 - **Corporate Social Responsibility (CSR) and sustainability risks:** What if the goods you ordered don't comply with the CSR/sustainability requirements of your clients?

Effective due diligence is what turns these risks from unpleasant surprises into manageable scenarios.

Okay, so we recognize that managing a remote sourcing program in China is a high-stakes endeavor. Having an on-the-ground presence is simply non-negotiable for serious importers. Now, the real question is: how do you manage it? Should you establish your own sourcing office, or should you work with a third-party sourcing company? In this chapter, we'll unwrap the

strategic decision-making process, outlining key considerations, cost implications, and risk factors to help you determine the best approach for your business.

When to Establish Your Own Sourcing Office vs. Outsourcing

Importers handling high volumes must decide whether to establish a dedicated China office or leverage external sourcing professionals. The right choice depends on several critical factors, including operational control, cost structure, flexibility, and risk management.

Key Considerations When Setting Up a China Sourcing Office

Location

Should the office be near key suppliers or in a business hub? Are you committed to one location, or are you open to exploring other supplying regions in China?

When establishing a sourcing office in China, deciding between proximity to key suppliers or being situated in a major business hub requires careful consideration of your company's specific sourcing needs and operational strategy.

Factor	Own Office	Sourcing Agency
Import Volume	>\$10M annually	>\$1M annually
Setup Costs	High - \$100,000+ upfront	None
Operational Costs	~\$500,000 annually, (5%+ of total spend)	Variable as needed
Control over Supplies	High	Moderate to High (depends on agency)
Flexibility & Scalability	Limited	High - scale up/down as needed
HR & Legal Management	Complex (hiring, compliance, payroll, severance)	None
IP Protection	Direct control	Relies on the agencies policies
Speed of Execution	Slower - hiring & setup take time	Immediate operations
Exit Strategy	Complex (office closure, severance)	Simple - terminate agreement

Your own sourcing office vs a sourcing agency, a decision framework

If your sourcing activities are concentrated within a particular industry that is located predominantly in one region, positioning your office near these suppliers can enhance operational efficiency and foster stronger supplier relationships. This proximity allows for more immediate oversight and collaboration, potentially leading to improved quality control and reduced lead times.

Conversely, if your sourcing encompasses a diverse array of products from suppliers dispersed across various regions, establishing your office in a central business hub like Beijing or Shanghai may offer distinct advantages:

- **Convenience:** These cities provide superior access to transportation networks, including extensive rail systems and international airports, facilitating swift travel to suppliers nationwide.
- **Cost Efficiency:** While cities like Shenzhen are known for higher living expenses and wages, opting for a business hub with a more moderate cost structure can result in significant savings on operational expenditures.
- **Neutrality:** Maintaining an office in a neutral location prevents undue favoritism toward any single supplier. This impartial stance encourages objective decision-making based on supplier performance and suitability, rather than mere convenience, thereby promoting competitive pricing and optimal supplier selection.

Ultimately, aligning your office location with your company's sourcing strategy and supplier distribution is crucial for maximizing operational effectiveness and cost efficiency.

Infrastructure, transportation, access to talent, and cost of operations

You'll want to be located in a city or region with stable power, high-speed internet, reliable utilities, and solid commercial amenities.

Tier 1 and Tier 2 cities like Shanghai, Shenzhen, Guangzhou, Hangzhou, and Ningbo generally offer world-class infrastructure. Proximity to major airports, ports, and train lines matters, both for visiting factories and for receiving supplier visits. If you or your team are spending hours driving to factories or frequently flying in and out, that adds up in cost and fatigue. In larger cities, you'll find bilingual professionals with experience working with Western companies, but they come at a higher cost and may have more job options (meaning higher turnover). Smaller cities may have lower labor costs, but you'll likely have to invest more in training or relocate mid-level managers from elsewhere. Office space and labor in Shanghai or Shenzhen will cost several times more than in cities like Chengdu, Qingdao, or Yiwu. But a higher-cost location with more experienced staff, closer factory access, and better infrastructure might save you money in mistakes, delays, and miscommunication.

Staffing & Talent: Managing Culture Differences

Core Functions: What core functions will your team handle: Sourcing, Quality Control (QC), logistics, negotiations? This shapes everything from hiring strategy to organizational structure. If your team is identifying new supplier factories, they'll need strong research skills. QC personnel can ensure your goods conform to your requirements. A local logistics team

can troubleshoot freight needs in real-time, especially when there are delays, port issues, or incorrect documentation. If your team is handling negotiations, they need to understand your company's bottom line and risk tolerance. See Chapter 3 for more on quality assurance and Chapter 4 for contract negotiation.

While identifying an individual with one of the above skills is easy, it's more challenging to find an individual who can handle all core functions. Therefore, it might be necessary to hire multiple individuals to manage your sourcing program, even if you don't have full-time work for each one of them. The more people in your own sourcing office, the greater the management burden. What if someone on your team is sick or has a family emergency? It's important to carefully consider the pros and cons of hiring, training, and managing all your own employees in your China sourcing office, or working with a sourcing company that can handle all aspects.

Language, Training & Retention

If your headquarters communicates daily with your China team, fluent written and spoken English is a must. However, if your team is mostly interacting with suppliers, intermediate English may suffice with a bilingual manager who can bridge communication gaps.

Training is never a one-time event. Technical, product, and systems training is ongoing with changes in technology. Custom parts and highly regulated goods may also need additional training.

Skilled bilingual professionals with sourcing or quality control backgrounds are in high demand and often courted by multiple

companies. Chinese employees often value clear direction, regular feedback, and visible career paths. Western management styles that emphasize autonomy without clear structure can sometimes be misinterpreted as neglect or confusion. Retention is about more than just salary: training, inclusion, communication with HQ, and a sense of purpose all play major roles in keeping your team engaged and loyal.

Compliance & Bureaucracy

Legal Entities: Setting up a legal entity in China requires government registration, tax filings, and employment compliance.

Wholly Foreign-Owned Enterprise

Unlike in many Western countries, where setting up an LLC or corporation can take days, establishing a Wholly Foreign-Owned Enterprise (WFOE) in China often takes several months and requires navigating multiple layers of government approval. Hiring local staff includes mandatory contributions to social insurance and housing fund systems that significantly increase the total cost of employment. Additionally, China's tax system is highly structured, with monthly or quarterly value-added tax (VAT) and corporate income tax reports to stay compliant with evolving rules. Failure to follow filing deadlines or misclassifying business activities can lead to penalties or business license suspension.

Representative Office

Representative offices, while easier and cheaper to establish compared to a WFOE, come with strict limitations: they are not allowed to engage in direct profit-making activities and can only perform liaison functions, such as managing supplier relationships or overseeing quality control. Maintaining this status involves ongoing regulatory reporting, including submitting annual audits, tax filings, and business registration renewals. These tasks can consume significant time and financial resources, often requiring the help of specialized consultants or law firms to stay compliant.

When operating through a representative office, buyers should plan in advance how they will carry out due diligence. Since the entity cannot sign contracts or trade directly, a sourcing partner or additional legal structure is often required to support audits, inspections, and on-site verification.

Employment Disputes

Handling employment disputes and severance must follow strict regulations.

Terminating employees or restructuring your team isn't as simple as issuing a notice or offering a severance package. Written contracts are mandatory. Letting someone go after probation without proper documentation can trigger legal claims. Unilateral termination often requires severance equal to one month's salary per year of service. Employees can file labor disputes easily and at little cost, with local labor bureaus tending to favor workers, especially when smaller foreign firms are involved. Many small-to-medium foreign firms use

Professional Employer Organization (PEO) or Employer of Record (EOR) services when they don't want to deal with the bureaucracy of hiring directly.

Ethical Risk Management

Ethical risk management, including conflicts of interest and supplier collusion, depends on disciplined due diligence. Without clear oversight, conflicts of interest, kickbacks, and favoritism can quietly erode your cost savings and quality standards. A buyer or merchandiser may quietly receive kickbacks or gifts from a preferred supplier in exchange for awarding business, even when better or cheaper options exist. Staff might generate fake competitive quotes to justify awarding orders (or bribing) to their preferred suppliers. These can be mitigated using clear compliance policies (including conflict-of-interest disclosures, anti-bribery clauses, and supplier code-of-conduct agreements), audit trails, and unannounced audits to spot-check for integrity. Establishing a culture of transparency and accountability from day one is essential to protecting your brand and bottom line.

Cost Structure

A well-run China office costs between 5% and 10% of your total sourcing spend.

For most importers, this level of investment is only justified if sourcing is a core business function and control over suppliers is mission-critical.

Cost Category	Detail	Estimated Annual Cost (\$10M Importer)
Setup Costs	Legal fees Office Space Initial Hiring	\$100,000 to \$200,000
Operational Costs	Salaries Rent Taxes Logistics	\$300,000 to \$500,000
Compliance Costs	Tax reporting HR Admin Dispute Handling	\$50,000 to \$100,000
Total	-	\$500,000 per year

The Alternative: Working with a Professional Sourcing Agency

For many importers, a third-party sourcing company often makes more sense. The key benefits include:

- **No Setup or Administrative Costs:** No legal, Human Resource, or operational burden
- **On-Demand Flexibility:** Scale resources up or down as needed
- **Immediate Market Expertise:** Established networks and supplier relationships
- **Faster Execution:** No time wasted on hiring and training

How to Choose the Right Sourcing Agency

Selecting the right sourcing partner is crucial. Look for agencies with:

- **Proven China Experience:** 10+ years in the industry, working across multiple product categories
- **Strong Supplier Vetting Processes:** Track record of factory audits, compliance checks, and dispute resolution
- **Transparent Communication:** Clear reporting, bilingual staff, and responsiveness
- **ESG & Compliance Expertise:** Understanding of environmental, social, and governance (ESG) factors
- **Budget Structure & Pricing Model:** Some sourcing agencies charge a commission based on the cost of goods shipped, while others operate on a fixed fee or hourly resource model. Ensure the pricing aligns with your sourcing strategy and expected order volumes.

Hybrid Model

Some importers find success with a hybrid approach, combining an in-house China office with external sourcing professionals. This is ideal for companies that:

- Import more than \$5M annually
- Need partial on-site presence but not a full office
- Want low fixed costs with flexible expertise

Final Thoughts

Establishing a sourcing office in China offers maximum control over suppliers. Because such an operation requires major financial investment, complex setup, and ongoing management in a different business culture, most importers will not consider it unless they are buying a steady \$10 million per year or more. Even then, navigating bureaucracy, regulatory compliance, talent recruitment and retention, and ethical risk management is a significant management burden that causes many companies to raise the threshold for “own office set up” to a sourcing program of at least \$100 million per year. Moreover, the time commitment for such an operation is usually measured in decades. Given the current uncertain global trade environment, large and small companies are justifiably cautious about making such an investment. Working with a professional sourcing agency is an arrangement that requires less upfront investment of time and resources and can provide greater flexibility, faster execution, lower fixed costs, and immediate market expertise. Regardless of the operating model, the constant requirement is disciplined due diligence: checking factories, contracts, and quality systems in a structured, repeatable way.

In the next chapter, we'll dive deeper into the most critical risk factors importers face in China and how to mitigate them through strategic supplier management.