

# Sourcing Right from China

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## **Author:**

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Reza is burning midnight oil to figure out how to get the shipment in time out of Xin Xian port from Eastern China to Mumbai port in India. Working as supply chain and logistics head for a multinational apparel and accessory conglomerate, he regularly faced challenges to sort out logistical hassles across continents. But, since China has been added as a regular sourcing hub into his company's global sourcing radar, he used to confront unique challenges seldom replicated in his global supply chain experience.

Reza clearly remembered what happened last year when he enthusiastically proposed to senior management for setting own liaison office in Hong Kong to manage sourcing from China. Over the years sourcing from China has become attractive, going by the 40 percent cheaper direct sourcing cost compared to similar items sourced from elsewhere. However, managing supply right from China to India has become an enormous task that makes having own office located in key location mandatory.

Also Reza had to convince the entire management team including purchasing, logistics and quality control manager, each of who has own logic not to source from China. And they seemed to be right considering their previous experiences. Long, unpredictable transit time slowed down inventory turn and made purchasing and inventory manager jittery about anything to be sourced from the land of dragon. Logistics manager had obvious reason to undercut China-sourcing as it invariably involved him in nightmarish entanglement with various ports, customs officers besides negotiating with various shipping lines to get berth in time across the port. Ensuring quality also become challenging that saw quality officer waving yellow flag at the proposition of sourcing fabric and trim from China. Sourcing from China appeared to face insurmountable barrier of the great Chinese wall.

## **“Kick-jerking” operation:**

However, Reza countered all these objections by presenting a logical and persuasive case to his managing director in favor of China sourcing. Finally, he advocated the “total sourcing cost” concept to win the argument. Total sourcing cost comprises ex factory price, freight cost, inventory cost, cost of rejected goods, cost of duties and cost of after-

sales service. Even after summing up all these costs, he found China stands head and shoulder above other sources.

He contended that sourcing from China would not only give cost advantages but also provide a platform to create more competition in its existing supplier base. Also payment through Hong Kong bank would give leverage to the company's credit line, as bank interest in Hong Kong is much lower than that of India. With sufficient fund in the company's foreign account, opening L/c through a Hong Kong bank certainly save few percentage of bank interest, which adds to company's bottom line.....

More importantly, when global apparel majors are racing up in China sourcing curve, it would be logical to follow the same. His MD also seemed to be impressed by the fact that Wal Mart was going to ramp up its sourcing from China from the then US\$ 10 billion to US\$ 20 billion in next five years. And other retailers like Carrefour, Tesco, and Best Buy were also expected to follow the suit. The balance between "To-source-or-not-to-source" seemed to tilt towards China then. With positive nod from his MD, Reza set up his own sourcing office in Hong Kong, which is supposed to act as key link for the China supply chain.

#### **Missing the "Boat":**

But after spending nearly one year after establishing Hong Kong office and beginning sourcing from China in full fledge; Reza is not sure whether he is on right track. Sourcing decision from China certainly have positive impact in terms of reducing cost of production as cheaper import from China constitutes major chunk of its company's total sourcing of fabric and accessories. However, this cost benefit has surely overshadowed by other problems like sporadic disruptions in supply and quality issues that seem to be insurmountable.

Difficulties in managing expected time of dispatch and arrival (ETD and ETA) and synchronizing these with in-house manufacturing schedule seems to be impossible.

Moreover, any disruption due to different time zone, disparate culture and language barrier all add to the list of factors throwing spanner into its supply flow. On top of it, commercial documentary intricacies- from not mentioning country of origin clause in L/c to mistyping consignee name or port of destination can lead to L/c amendment and delay in release of goods from port.

Quality and quantity assurance are another botheration that messed up its sourcing from China. Invariably some parts of every consignment are hit on either/ both of these two grounds. Bureaucratic Port and customs delay, Intellectual Property (IP) infringement that provokes duplicating company's product without consent are further mess up its Chinese supply route.

Looking forward from salvaging the current supply consignment to creating viable sourcing option from China, Reza figures out few crucial milestones that his company has to cross to make China sourcing successful. He finds that their liaison office in Hong Kong performs critical operation like payment to supplier, arranging shipment from the premises of the China manufacturers, negotiating with shipping lines and monitoring

shipments. However, it fails to do all these activities as efficiently as require. He reasons that failure to do so rests upon relative inexperience of his staff in managing the entire set of tasks from monitoring supply and quality, negotiating effectively with shipping lines and customs. Also absence of a warehouse in China is largely felt, as most often its Hong Kong office has to ship LCL- less than a container load, making the shipment cost high. Reza also figures out that carrying out some of the pre-production and post-production tasks certainly adds value to its supply chain in terms of reducing number of days it would otherwise take for to-and-fro movement across China and India.

Stitching all these facts together, he drafts a **“course correction”** measure to streamline its China sourcing venture.

#### **“Course-Correction”:**

Building infrastructures like streamlining quality inspection and control has featured on top of the strategic game plan. Understanding the customs rules and regulation also plays vital role in streamlining sourcing process. Hiring local staff, Reza featured will help him in achieving these milestones as local Chinese can add value to inspection and commercial management more quickly. Reza also plan to invite Third Party (3P) service providers to take care of port-management, to sort out intellectual property (IP) issues as his company has few patented products to be sourced from China. A thorough knowledge of IP is what will make these 3P service providers valuable in protecting his company’s patented products.

Developing agent-based network to complement its relative lack of expertise in vast supplier market geographically dispersed across the “Land of Dragon”. Reza plans to create a strong performance measurement of its Hong Kong based staff including Chinese locals to improve performance through a basket of carefully selected parameters. Also providing incentive to local and foreign stuff will make the sourcing performance more result oriented, Reza figures out.

Finally, shifting some of the value added tasks to cut total lead-time of its china supply chain. Activities like approval of pre-production samples and trials can be carried out through Hong Kong office by positioning an experienced staff there. Also some post-production task like attaching labels and price tags, ironing and hanging garments on hangers make sense to significantly reduce time and offload the in-house people from carrying these tasks.

#### **“Sailing Smooth”:**

From the above strategic road map, Reza develops a hybrid-sourcing model comprising direct involvement; third party and agent based sourcing. All three will add significant value while taking care of the challenges he faced so far in terms of logistical delays and quality nightmare. And he feels confident that all activities like timely sample submission and approval from buyer, determination of shipment mode – Air / Sea, negotiation of FOB or C&F or CIF Price and payment terms (L/c / T.T) can be taken care off more efficiently. Also checking the Invoice & make it as per Indian custom rules, items to be sourced, logistical mode, lead time for various shipping lines, port congestion and logistical route can be effectively carried out by the Indian stuff posted in Hong Kong.

All these will open a slew of opportunities – low cost of sourcing, improved bottom line, taking pre-production sample approval, design development jobs near to china-supply, also carrying out post-production activities like labeling, hanger attachment, floor ready merchandising at supplier places. **Consolidation of supply chain through shifting some of the value added tasks at China to cut short total cycle time of supply chain.** For instance, a garment to be designed at Louisville, fabricated at China to be shipped to New York can be quickly delivered if some of the post-production activities are carried out in Chinese supplier's premise.

So, right sourcing right from China is a challenge worth for sustainable improvement in an organization's bottom line.