

Quality control in China

How to reduce quality risks?

This white paper provides Mr. Rudy Kuo's view of quality control in China and how quality risks can be reduced. It provides an overview of the factors to be taken into account after the strategic decision has been made to start procurement in China.

Different definitions exist regarding quality. My definition of quality: the ability to prevent and resolve problems.

Quality Levels

In China many different levels of quality exist within the same industry. One reason is that certain manufacturers only produce for the domestic market, while another reason is cost leadership strategy. But as rejected parts are also considered costs, why do Chinese producers not improve their quality?

In many Chinese factories the attitude is to solve problems when they occur, or when the customer finds out. Although increasing, still relatively few manufacturers understand the importance, and have implemented a quality system that actually *prevents rejected goods from being shipped* to the customer (not merely a certificate on the wall that states the factory is ISO qualified). A quality system that also includes traceability to the source of the problem, and for it to be prevented the next time.

11 Factors

Below I have listed 11 important factors under 4 headings that are useful in reducing quality risks. The list is merely a brief overview, but useful as a common reference. Many other factors can come in play due to different circumstances, different types of products/industry, and people.

I. Evaluation new suppliers

1. Production location, financial, and entity, information.
 - a. It is common in China for factories to be specialized in the production of certain components. Finding out which parts are outsourced and what parts are produced in-house are crucial in terms of quality control.
 - b. There are people and companies that act as intermediaries between the factory and a customer, but sometimes present themselves as shareholders or owner of the factory. Verifying this type of information is important and can be performed by companies such as Dun and Bradstreet.
2. Quality attitude and quality management.
 - a. Select manufacturers that understand the importance of quality management.
 - Talking face-to-face with management provides the opportunity to find out, an email will not provide the necessary certainty.
 - b. Work with suppliers that have a **working** quality system in place.
 - How to find out: Visit the factory or appoint a QA/QC agency.
3. Supplier – Buyer power [Manufacturer size]
 - a. Select a supplier that fits your order volume. If the order quantity is too little, orders could be delayed, as other larger orders will have priority. The client's power position is low, as there are larger customers available. Orders that are too large for a factory could also lead to problems if production capacity is not sufficient.
4. Comparative management
 - a. Visit multiple suppliers, low, medium, and high-end suppliers to gain and have sufficient information regarding the local purchase market to select the right supplier, and to provide yourself with a better negotiation position.
 - b. Try to quantify supplier assessment results, weigh the different criteria, and then compare the suppliers.

II. Purchasing

1. Payment terms
 - a. Pre-payment of 30% is common in China. If a long-term relationship exists then sometimes 100% payment after receipt of goods is possible.
 - b. The key is to hold financial leverage before knowing if the quality meets the requirements.
2. Clauses
 - a. Important is to include important (non-standard) quality information, delivery terms, lead times etc. in the PO and/or contract.

III. Quality assurance

1. Quality requirements
 - a. The first step in quality is always for both the customer and the supplier to agree upon the quality requirements. Subsequently all those requirements (updated version), must be included in the PO/contract in both Chinese and English.
2. Test and inspections
 - a. Test results (chemical, mechanical, dimensional etc.) are advised to be provided during production, after production, and sometimes pre-shipment (depending on re-orders or new orders, new / old suppliers).
 - b. Important is for different parties to receive a part of the same inspection sample to compare results.
 - c. To prevent different results through different inspection and testing methods, it is important to pre-determine the test equipment, and other testing requirements. **Also to pre-agree on the situation if test results do not match, and how to handle.**

IV. Long-term business relationship

1. Same strategic/long-term goals
 - a. Aligning long-term goals with the supplier will contribute to a long-term relationship – partnership. The supplier will be more prone to regarding the relationship as a partnership, and if problems occur not consider those as the client's problem only, but as a *mutual* problem, that needs to be solved *together*.
 - b. For long-term relationship to develop, trust needs to be developed, which requires meeting regularly in China. At the start of a business relationship conversations are mostly rather superficial, but as the relationship grows, topics become more in-depth, and a more

personal relationship is established, which is normally a benefit to the (business) relationship.

2. Chinese communication

- a. Building long-term business relationships with Chinese suppliers includes communicating in a more indirect manner, and at the same time conveying the correct message.
- b. During problem situations it is key to focus on containment and future improvement, but at the same time analyzing the source of the problem to prevent it in the future. Important is to communicate an error to a supplier but at the same time not offending them. Letting suppliers understand the mutual benefit of knowing the problem is key to communicate with them.

3. Supplier development

- a. If suppliers understand and are willing to achieve similar long-term goals, supplier development is possible.
- b. Suppliers are many times reluctant to adjust their current working procedures as it involves time and resources. Important in this process is to prove to suppliers that certain methods work, and lead to lower cost and/or to improved quality.
 - i. Improvements can normally only be achieved if the customer provides the forms, instructions, SOP's, and provides demonstrations. Afterwards, customer inspections are necessary to check the supplier.

Conclusion

After making the important decision to purchase in China, it will be a key priority to achieve the desired quality, and to select the right suppliers. Many factors come in play, of which some are stated above, and of which finding a supplier, who shares the same strategic goals is a vital one. Implementing the necessary quality tools and taking the right measures will mitigate the quality risks involved.

Keep in mind to anticipate how a factory will react when serious quality problems (and consequently compensation) occur. In these situations a combination of the owners/management attitude of a factory + what is written in the contract will determine the outcome, not only what is written in the contract.