

The Value of In-Country China Supply Chain Support

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Your strategic supplier speaks a different language. They operate in a commercial and industrial environment that is far less developed than in the West. Business principles taken for granted in the West are not engrained into general commercial practices across the local industrial base. Quality standards vary widely in your supplier's market and common functional disciplines like MRP inventory management and standard costs are rare in the local supply base. You manage that supply base from 7,000 miles and 12 time zones away by e-mail, semi-annual business trips and either occasional early morning or late night telephone calls. Is this really a formula for success?

Most supply chain management ("SCM") professionals would logically see unacceptable risk in this scenario. But this is exactly how a high percentage of Western companies elect to manage China-based suppliers. After more than two decades of working with over 200 Western companies doing business in China, it is our conclusion that for any strategically important buy, local real-time and direct tactical supply chain management support is highly advisable. If a foreign company's business model is dependent on the stability and performance of a China supplier base, some form of local professional human interface is a critical success factor. Without this local capability, a Western company is gambling with its competitive future.

Consider for a moment how a Western company – a U.S. company for example – manages suppliers in their home country. Most probably, the Company's SCM and perhaps engineering staffs scan the local market constantly seeking to optimize the supply chain options. Local telephone calls facilitate routine and dynamic communications during normal business hours. A common language and consistent business system lubricates the customer-supplier relationship.

If problems occur – and they are inevitable even with the best of suppliers – local proximity expedites and enables problem resolution. Finally, supplier sales staff often conducts periodic meetings with the Company's supply chain and engineering departments to talk about problems, new opportunities, and developments that directly impact the business relationship between the two companies. This is possible because there are local customer and supplier personnel communicating on a real time, local basis. The result is an organic and rich optimization of the Company supply chain.

Almost none of these advantages exist if a company chooses to manage China suppliers remotely. The result is significant added risk to supply chain security.

There are two ways to overcome this challenge. The first option is establishing a dedicated small team of China-based supply chain professionals employed by the Company, trained on the product and business needs. The team is focused only on optimizing the Company's China supply chain performance. The second option is contracting with a third-party organization whose interests are directly aligned with the Company. Each of these options has advantages and disadvantages, but both provide enhanced local supplier base oversight and can be effective solutions to the challenge,

Establish an Internal Dedicated SCM Team in China

The most common reaction to this option is that it is too costly and difficult to manage. However, the costs of operating a team in China are far lower than most Western companies perceive and there are simplifying approaches to managing the team. If only a small team of supply chain professionals is needed in China, it is generally hard to financially justify extensive internal administrative support structure and facilities. The good news is that there are effective options that allow you to capture the value of a dedicated internal team at much lower cost than generally expected.

Various service providers in China operate business models that provide facilities and back room process support to simplify management, reduce operating expensed and simplify administrative activities. Such services can provide support in office space, hiring and employee contracts, local benefits, payroll, local accounting reporting, tax filing, insurance, IT support, regulatory compliance oversight, etc.). This frees up internal dedicated SCM staff to focus exclusively on the desired SCM activities.

Whether a company establishes its own office or uses one of these partnering services, a dedicated, internal team of supply chain professionals located in China provides maximum company control and positioning with the supplier base. While less costly than most Western companies probably expect, the downside is that it is inevitably higher cost than a complete third-party SCM service provider structure and the HR challenges (supervising and monitoring the internal dedicated SCM team) from half way around the world cannot be avoided.

Employ a Third-Party Supply Chain Service Provider

The second option is to contract with a true BPO third-party to perform all local SCM activities. To be clear, this is not a suggestion to use a trading company or a broker. Strategically important purchases should ALWAYS be structured with a direct transactional relationship (P.O.'s, Shipments, Payment) between suppliers and the Western company. The key to success is structuring the relationship with the BPO Third-Party SCM service provider so that there is a strong mutual alignment of interest. If these relationships are structured successfully, the advantages are that no legal entity is required and the total cost of SCM activities can be minimized. The trade-off is that there is a somewhat lower level of control with this complete third-party path.

The Path Forward

Done carefully, either of these options can be successful and both are major improvements in value and capability over not having in-country supply chain support or using a buy-resell broker or trading company. If a Company's China supply requirements are critical and strategic to the success of the

Company, it is strongly advised that one of these two options be selected and that local supply chain management support resources be established.