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# Don't Give Up on China

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With all the bad news about products coming in from China in the last three months, there really seems that no negative stone has been left unturned! If we look at this objectively, we are going to see that there have been problems, very serious problems. There have been excuses and there are very well thought-out solutions that do work. The one thing we know for certain is that we have gone through similar problems and similar situations in Japan, Korea, Taiwan, and certainly here in the U.S. — not to mention a host of other, smaller countries. One of the first things that you should do is take a globe and erase all the country lines when you are considering manufacturers. Although you may find a preponderance of great manufacturers in specific countries, just because your specific product is made in Japan does not guarantee high quality. And because it is made in China does not guarantee that you are going to have problems. It all comes down to each of the specific manufacturers; it is the company that is responsible for making good and bad products, not the country where it is located.

## Getting the Lead Out

If we look at the problems that have made the news headlines most recently, Mattel comes to the forefront with paint that contains lead. Not long ago, the company recalled 18.6 million toys, of which only 436,000 are lead-paint related. That's 5 percent of the total and a company spokesperson said that they had recalled many more possible paint-problem-related toys to be certain to "get them all". A single paint-related problem is one too many, however, the question is what happened and why? In the beginning, Mattel said that it was a supplier issue. It's really not, it's an issue for both the customer and supplier.

What is interesting is that Mattel had outsourced the manufacture of these specific products and that the manufacturer in turn outsourced to another, who was responsible for the painting. Who really knows how many times it was outsourced from there? The issue is and the question is: did Mattel pick the right manufacturers to subcontract their products? They make hundreds of millions if not billions of toys, and the most important thing that they can do to guarantee not having production problems is to select the right manufacturers. Simple to say, hard to do. They obviously made a mistake this time. Mattel made a

The customer held the manufacturer's feet to the fire saying "We have a multi-year contract and you absolutely have to hold price." So they held price, couldn't continue and ended up going into a major bankruptcy, which affected all of their suppliers and their customers.

The interesting thing is that when the toy customer had to go out and rebid this product and find a new manufacturer, the prices went up to where they would have been at the now-defunct manufacturer — naturally, since all the new possible suppliers who were still in business quoted based on current pricing of raw materials. If the customer and the manufacturer had worked together they would have maintained a great quality manufacturer for many more years.

## Maintaining Quality Standards

One of the other problems, also considered an excuse, is that people say "Well, the quality standards in China are different from those of the Western countries." The truth is that good manufacturers who understand global quality will provide equal quality. The difference is really up to the customer to resolve and to help the suppliers understand exactly what the expectations are.

So, now we may ask, "Just what is the solution?" First of all, we need to focus on the problem — what needs to be done now and what needs to be done in the future. Remember, that both the suppliers and China itself have every incentive to do it right! It is important to have a very good set of specifications that are understood by all parties involved.

Second, there must be a very detailed quality control process that specifically lays out what needs to be checked, to what standard and what tolerance.

Third, the supplier has to understand that there can be absolutely, positively no deviations on any of the materials or processes without customer approval.

Fourth, the supplier needs to understand that if deviations or changes are made, that it is their responsibility to repair or replace the bad product.

And finally, there needs to be some reasonable

comment saying that "The company's standards were ignored and rules were broken." That statement is undoubtedly correct, but solving that problem is simple: choose the right manufacturers from the start.

### **Squeezing the Margin**

Other problems that are being faced by these manufacturers are "margin squeeze" and exchange rate, especially with the U.S. dollar now at such a depressed value. Most of these large toy makers are relentless in finding the lowest cost, and in some cases, have relegated pricing to the "cheapest" low cost, not the "best" low cost. Doing this is a sure-fire formula for creating problems! The other issue is that the RMB has changed considerably over the last two years. There have been numerous negotiations where the customer says that it is a supplier issue and that the supplier has to hold price to whatever was originally quoted. The fact is it is not just a supplier issue, it is an issue for both the supplier and the customer. If the customers are grossly unfair with the suppliers, it can force the supplier to make cost reductions, which oftentimes means quality reduction; the alternative is often bankruptcy, and there has been a rash of them in China. The suppliers simply could not keep up with the cost increases, and the customers wouldn't let the suppliers raise their prices.

Typically, a well-known toy manufacturer recently went bankrupt, when negotiation after negotiation failed. The manufacturer tried to increase the customer's prices when copper went up, zinc went up, labor went up, plastic went up, RMB went up, etc.

understanding by the customer of the capabilities of the factories, so that the customer is not asking for tighter tolerances or tighter specs than the factory can truly produce on a continuous basis. Everyone can make great samples, but is the factory capable of repeating that sample a million times?

What we have to remember is that even in the best of times, all companies have problems. This year GM, Ford, Toyota, Volvo, Audi, and others are all recalling cars. GE just had a massive recall and Topps beef not only had a recall, but has closed their factory over quality issues. This is not just a China problem!

While there are certainly issues, it is imperative that we continue to educate the manufacturers and train them so they know unequivocally just what our expectations are. They must be made to know what the consequences are of bad product. If we do this, we will end up with much higher quality, fewer problems, and as time goes on, lower costs. We need to be fair with our suppliers and we need to do everything we can to help them make great product. So again, simply erase all the country lines on the globe. Don't give up on China. In our 25 years of association with China, we have seen time and again that there are truly amazing factories there, some of the best in the world. The key to avoiding problems is choosing the right manufacturer and working with them so they understand the specifications and expectations!

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