

# 6 Steps Towards Profitable Import Business



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**Last update: 2012-03-12**

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# Introduction

This e-book was written for individuals, start-ups, small to medium sized companies that are importing - or plan to import - products from China and/or Asia. We are certain that there's useful information in this book regardless of whether you're a newly established start-up or have several years of importing and outsourcing experience.

The purpose of this book is simple - to avoid the risks of importing from China and, despite it often not being easy to know what to do next, helping you make your successful next move. Fortunes have been made and fortunes will continue to be made importing from China/Asia - you decide whether you are among the group of successful import companies launching new and existing products - or whether it shall all end abruptly with you being cheated by somebody selling you a container filled with brick stones. It is up to you to do your due diligence. This book teaches you how, including:

- An understanding of why importing from China is a lot about strategy and tactics and requires more than simply requesting a quotation on Alibaba.com
- A clear overview of the different processes that are required in order to successfully source suppliers and import products from China.
- Minimize the risk of being cheated by your supplier
- This book is only a first step towards your own successful, money generating, profitable import business. It does not contain all the answers, common mistakes, required steps/task, or possible problem scenarios... but it does provide you with a complete blueprint to learn how to manage your company and deal with potential problems that you may encounter when dealing with Chinese suppliers.

## Phase A - Pre Study

Before you start contacting suppliers on Alibaba.com or Globalsources.com there are a few things to think about. The Pre Study lays the foundation for your future import business and answers critical questions that need to be so before you can take the next step.

### **IMPORTING INSIDER TIP #1: DON'T BITE OFF MORE THAN YOU CAN SWALLOW AND FOCUS YOUR TIME AND MONEY ONE PRODUCT / SUPPLIER**

Right, So you want to open an online store, and you need products? The first step is to source suppliers that specialize in your field of products.

- **MOQ [MINIMUM ORDER QUANTITY]**

Not reaching the MOQ [Minimum Order Quantity] requirements of the suppliers. Every product comes with an **individual** MOQ requirement - and for many consumer products this is in the hundreds of units. To fully stock up a web store with a wide product range requires you purchase tens of thousands of products.

The alternative is to purchase products from a Dropshipper or trader with lower MOQ requirements - the downside being lowered customization options and profit margins

- **DUE DILIGENCE REQUIRES TIME AND EFFORT**

*Importing from China is not about trial and error - unless you enjoy losing money. Success will be decided by how well you execute a process of due diligence - and this process takes time. Unless you have a team of outsourcing experts at your disposal you can forget about managing the “procurement process involving several suppliers and products.”*

- **Product Development Costs**

Samples are not free, and if you're like us, you don't have an unlimited budget so *it's important that product development [samples, prototypes, moulds] costs be kept at a minimum.* The more products you include - the more money you have to invest even before you reach the production start.

## **TO DO LIST #1**

- 1 Focus your money and time on one or a few products at the beginning. Filler products can be purchased from local wholesalers instead of from China.
- 2 Let your product portfolio grow slowly and have a long term perspective
- 3 Base your product selection on your suppliers catalogue - rather than basing your supplier selection on your own preferred inventory. This means that you can focus all your purchases at one supplier and thus save time, money and get a lower MOQ.

## **IMPORTING INSIDER TIP #2 - PRODUCT SPECIFICATIONS ARE YOUR RESPONSIBILITY**

Startups and small businesses are usually focused on selling and marketing the product they are importing from China. To many importers it comes a shock when they realise how much time and energy they have to invest in not only selling the product - but also in purchasing the product and maintaining an acceptable quality standard. The main issue here is - have extensive knowledge about your product, or you are likely to face the following issues:

- **SUPPLIER QUALIFICATION**

*You will not be able to select the right supplier for your product.* Different products have different materials and components - different suppliers have different subcontractors, raw material and component suppliers. Is this overkill for a small business? Certainly not if you care for detail and quality of the product.

- **CHEATED ON PRODUCT QUALITY**

*It's very easy for your manufacturer to cut corners during production.* In reality this means that the supplier may choose a cheaper material or component for

your product - unless you have specified exactly what you want.

- **NON PROACTIVE COMMUNICATION**

Never assume that the supplier will **ask you** the right questions in order to fill in the gaps [product specifications that you didn't communicate or get confirmed]. In fact, they are likely to use these gaps to take advantage of the lack of clarity and then use cheaper and/or inferior materials or components in order to increase their own profits.”

## **TO DO LIST #2**

- 1 Give active instructions – Contact supplies **ONLY** after you have a complete list of product specifications [dimensions, weight, certification requirements, material, components etc.].
- 2 If you don't know all the product specifications [you probably don't] - then fill in all the blanks by scanning product descriptions on Alibaba.com or your competitor's websites.

## **IMPORTING INSIDER TIP #3 - PRODUCT STANDARDS & CERTIFICATION**

Too often overlooked by small importers - and often assumed to not be enforced. If you are located in the EU or the USA you shall consider product certification compliance your main supplier requirement.

- *A product certificate* is a set of standards that complies to a certain list or type of products.
- Toys, electronics, certain plastics, construction materials, vehicles, food, medical equipment, machines and chemicals are products that often need to be certified according to a *predetermined standard before they can legally be sold in the country of import.*
- *It's often hard to find information on whether a product needs a certain certificate or not.* The easiest way to find out is to review product descriptions on Alibaba.com. If one or more suppliers mention that their product is certified according to a certain certificate standard - then it's a strong indication that your product needs to have this certificate.

- Product certificate requirements make the process much more complicated for European and American buyers. Why? Because *only a minority of the suppliers in China tends to offer certified products*. Thus this should be your main requirement - why spend time on price research and negotiation with a supplier whose products are illegal for you to import and sell?

### **TO DO LIST #3**

- 1 Research what product certificate is required for your products in your country or market before you begin with sourcing products and suppliers

### **IMPORTING INSIDER TIP #4 - GET ORGANIZED AND USE A PROJECT PLAN AND/OR TASK LIST**

Your mission is to select the right supplier with the right papers and prices - this requires plenty of email communication, due diligence and confirmations - multiply this with the number of suppliers you are communicating with and you have a ton of text, images, emails and document files to deal with. This needs to be stored somewhere - for review and future reference. Why? Because you're not here in China - you are sitting in your office or at home sourcing suppliers on the other side of the planet.

You also need a project plan that breaks down the process into actionable steps, and conditions that need to be fulfilled in order to move on to the next action.

### **HERE'S A LIST OF INFORMATION THAT YOU NEED TO STORE DURING THE PROCESS:**

- Product photos
- Quotations
- Supplier related documents [Business license, BAC, other]
- Shipping documents
- Pro Forma Invoices
- Agreement drafts
- Test reports
- Supplier Audit Reports

## Phase B - Sourcing & Research

Put on your armour and get ready for battle - it's time to engage the suppliers. We hope that you have done your homework by now - if you still don't have a detailed product description we strongly advise you to go back to Phase A - Pre Study.

### IMPORTING INSIDER TIP #5 - WHY YOU NEED MORE THAN ONE SUPPLIER

*One of the biggest and most common mistakes* is to make your final supplier selection based on a few days of email conversations or whether the supplier have a nice website. Below we explain why:

- Remember what we said about *product certification*? It's far from all suppliers that have that CE or RoHS certificate. This factor alone means that you will see plenty of suppliers being disqualified early in the process - but it doesn't stop here. Suppliers are disqualified for a number of different reasons;
  - a.) Not interested in your enquiry / consider you to be a waste of time
  - b.) Inactivity
  - c.) High prices
  - d.) Cannot comply with your product specifications and / or quality requirements - Every supplier has limitations in their production- just because they can make a watch doesn't mean they can make your watch!
  - e.) Bad communication
  - f.) High MOQ
  - g.) Refuse Quality Inspections / access to the factory
  - h.) Refuse to sign a Sales Agreement [Yes, it's that important]
- *When we source suppliers, we're lucky if more than 25% of the initial supplier selection remains after Phase B.* The point here is that you are very likely to waste a lot of time moving forward with suppliers that will never be able to produce your product the way you want it - this is especially true if you're selling something in the EU or USA. Western customers are spoiled and products and product packing must look great in order to be competitive on the market.
- There's another reason why not including a sufficient amount of suppliers could spell big trouble later on in the process. When a supplier feels confident that they

have locked you in - they might do the following:

- a.) Refuse any kind of Sales Agreement
- b.) Refuse samples
- c.) Raise prices before or even during production
- d.) Refuse a Quality Inspection
- e.) Request a 100% prepayment before production
- f.) Use cheaper substandard materials and components

Why?

Simple - by the time you have invested time and money into price research, product samples and negotiation - it's already too late for you to go back and start from scratch. You *must* get your product out on the market - and you simply *cannot wait* any longer because every day your product is not on the market - you lose money!

So what will you do in a scenario like this? Probably accept any sudden price increase or delay the supplier impose on you. This is a tactic that works - and importers fall for this trick all the time.

## TO DO LIST #5

- *Don't source one, two or three suppliers - source twenty one, twenty two or twenty three suppliers so that the project can keep moving forward despite "heavy losses" the process*
- *When [not if] a supplier tries to play a trick on you - throw them where they belong - in the trash can - and **move on** one of your other suppliers that you have not yet disqualified. This way you run out of options and never have to worry about starting over from the beginning.*
- *It's fundamental to have several supplier options available during the whole process and you don't want to discourage suppliers from taking part in the process. If you make them feel that they don't stand a fair chance of getting your order they're likely to not even bother quoting a price.*
- *Don't go "on and off" the process. Suppliers will drop out by themselves if you stop replying emails for two or three weeks. If a supplier is disqualified - tell them politely that so is the case and why you've made this decision.*

## IMPORTING INSIDER TIP #6 - PRICE RESEARCH

The first thing you should ask for is a quotation. This sounds simple but things often go wrong at this early beginning. This is what you should ask yourself:

### HOW DO YOU KNOW THAT THEY QUOTED THE RIGHT PRODUCT AND/OR PRICE?

“Of course, I've sent them the product link and I even told them what materials and components to use” Sure you did.. But did they *specifically mention in the quotation* that it was based on FOB Shanghai and that the watch is made of stainless steel and contains a Japanese movement? Or maybe they quoted you an alloy watch with a cheap Chinese movement without telling you?

### WHY MANY SUPPLIERS DO NOT CLARIFY WHAT PRODUCT THEY QUOTE

- *Because its a money maker.* The supplier knows this process inside out - they know that they need to be among the few suppliers that qualify beyond the initial sourcing & price research phase. They will likely not drop the “bomb” until you are close to place the order.
- *Maybe its a misunderstanding.* Chinese people are not native English speakers / readers. We've seen plenty of enquiry requests that consist of an unreadable text paragraph where the product requirements and specifications are sparsely spread out. This is an invitation for serious misunderstandings and quality issues.
- Chinese suppliers, unlike their western counterparts, “*quote from scratch*”. Since they usually *don't keep any components or materials in stock* they need to call up their component and material suppliers and get the latest price in order to send you a quotation. This requires a lot of work for the person on the other end - and many of them will not bother giving you an accurate price if they deem you to not be a serious buyer.

### TO DO LIST #6

- Require the supplier to mention all product specifications in the quotation file - email or Skype is never enough
- Provide the suppliers with very clear product descriptions and quality requirements .

- Do not ask your supplier to quote you until you have a [almost] final product description and list of product specifications. You don't want to let an otherwise good supplier drop out because you appear to be disorganized and just take up a lot of their time.

## **IMPORTING INSIDER TIP #7 WHY COMMUNICATING WITH MANY SUPPLIERS IN ITSELF IS A GREAT THING**

*Importing from China basically about processing information* - and more so the further away you are from the supplier. For natural reasons - the more information you obtain - the more likely you are to draft a killer Sales Agreement and thus further increase your chances of becoming that cool millionaire entrepreneur that you deserve to be. (Well, at least in Thai Baht)

- Mind the Gap [Product specifications again]

Mind the gap - We're talking about product specifications and you shall fill in the gaps. The more suppliers you communicate with and get quotes from - the more likely you are to fill in these gaps. Here's why:

a.) Supplier A specifies that the wristwatch contains a Citizen IL22 Movement and this is the only movement that can fit inside your 6.5 mm thick watch case - and its the only movement with only 2 hands. The result is that now you know that 1.) The movement is the component that decides the thickness of the watch case and 2.) Not all types and brands of movements can limit the number of hands down to two

b.) Supplier B gives you two quotations - one for a case made of zinc alloy - and another for a case made in stainless steel. Result? Maybe you should ask the Supplier A which watch case material *they based their quote on?*

These things may seem to be obvious when you read this book - but you will soon realize that it's *very hard to uncover key facts about your product* when communicating with Chinese suppliers.

## Phase C: Supplier Audit

In Phase B you communicated with a large number of suppliers. It takes too much time to review and verify the documentation and Quality Management System of every single supplier. Instead you shall only do so with the suppliers that's worth investing time in - in other words the suppliers that you have qualified from Phase B: Sourcing & Research.

### **IMPORTING INSIDER TIP #7 - WHY A SUPPLIER AUDIT MAKES SENSE FOR ALL IMPORT BUSINESSES**

*What makes a good supplier?* That's a good question, and at this point you have based your selection on what statements, promises and prices. How can you be sure that these are true? You cannot - and that's why you should do a Supplier Audit.

#### **THE OBJECTIVES OF A SUPPLIER AUDIT**

- Verify the name of the Legal Representative - this person shall sign the PI and Sales Agreement in Phase D: Agreement & Payment
- Verify the business license - this is the company you shall pay and it shall match the company name and address previously stated
- Verify the bank account details and that you are requested to transfer money the same company that is stated to be the seller.
- Verify that the test reports / product certificates are authentic and still valid
- Confirm whether the product is *actually manufactured by this company* or subcontracted to another manufacturer - keep in mind that even manufacturers subcontract orders to other (often substandard) factories.
- Review the *Quality Management System* applied by the company. Manufacturing is not a science and a good supplier has a system in place for monitoring the production process and correcting mistakes. If you don't have the resources to actually visit your supplier - then the least you can do is to ask them to list the different steps of quality control, before, during and after production.

## **IMPORTING INSIDER TIP #8 - QUALITY MANAGEMENT SYSTEM**

You may have heard about ISO 9001 - this is a protocol for *Quality Management*. However, suppliers without an ISO9001 certificate may still be good suppliers, so don't disqualify them for this reason. Begin by asking your suppliers the following questions:

- 1 Do you quality control *incoming raw* materials and components?
- 2 What do you do when you *discover a defect* among the raw materials and components?
- 3 When do you quality control products *during production*?
- 4 What do you do when you discover defect units during production?
- 5 Do you quality control products *after production*?
- 6 What do you do when you discover defect units after production?
- 7 Do you have any *quality control records* [from previous orders] for us to see?

An organized supplier is able to answer these questions and prove that they keep records from previous orders.

## **IMPORTING INSIDER TIP #9 WHY A FACTORY INSPECTION IS A GREAT INVESTMENT**

We've had situations where the communication, pricing, product knowledge has been great. Everything was looking good - until we actually visited the factory and realised that the factory *looked more like a junkyard than a manufacturing plant*. When you visit a supplier - be it a trading company or manufacturer - you will get to know the people behind it and their resources [manufacturing capacity and product knowledge] much better. Below we list the two major reasons for visiting your supplier before order:

- **LIKELY TO PROVIDE IMPORTANT PRODUCT FEEDBACK FROM THE SUPPLIER**

Again we get to the topic of *product specifications*. When you sit down with the product engineers and discuss an order - you are very likely to receive important feedback and product information from your supplier.

- **YOU WILL BECOME A HIGHER PRIORITY FOR THE SUPPLIER**

*You may also be taken more seriously by the supplier* and if you keep playing your cards right - you will become the first priority of the supplier. Chinese suppliers have low profit margins [usually 2 - 4%] and repeat business is the only way for them to make it worthwhile.

## **TO DO LIST #9**

- 1 If you have the time and money - book a flight to China. You must be well prepared and *visit as many suppliers in the area as possible*. Remember that China is a large country. Visit suppliers in the same province, city or industrial cluster, flying from supplier to supplier without taking the distance into consideration is a waste of time and money.
- 2 The more suppliers you visit the more *inputs on manufacturing limitations, pricing and product information* you are likely to receive.
- 3 Regardless of whether you visit your supplier or no - you must still verify their documentation and ensure that you are paying the right company. Otherwise you might get caught up in a payment fraud before the show even gets started.

## Halfway there..

Let's stop for a moment. Maybe you are slowly starting to realize that the key to success is not to apply individual tactics or tricks - but applying the process as a whole. All Phases and tasks are interconnected and applying these steps doesn't make sense unless it all follows a logic pattern.

### EXAMPLE OF WHAT COULD HAPPEN IF YOU NEGLECT THE IMPORT PROCESS

Let's assume that you didn't bother to look up whether your product requires a certain certificate [RoHS, REACH, FCC, CE etc.] during Phase A: Pre Study. You're likely to move on and face few obstacles during Phase B: Sourcing & Research. You might even make it as far as Phase D: Agreement & Payment before you realize the following:

- 1 Your product must comply with a certain certificate / product standard
- 2 Your selected suppliers don't have any test reports and / or cannot comply with this certificate / product standard
- 3 **Result:** Unless you've got any backup suppliers with the required documents you must start all over again. Don't be surprised if even fewer suppliers will bother with you the next time you come back to them!

Saving an hour on researching the product certificate requirements in your market could make you lose weeks or even months of progress.

### And it gets worse..

Let's imagine that you didn't realize that your country / market requires your products to comply with a certain standard until after the supplier has started production? Then we are looking at *not only wasting valuable time - but a potential bankruptcy.*

**Lesson:** *Neglect the process and things are very likely to blow up later on.* The longer you let things blow up - the more disastrous the result will be.

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