

8.1. Evaluating and Managing Customers and Vendors (RC)

Introduction

When trying to identify possible partners for doing business in China, it is vital to choose companies that are formally and also from their capabilities fit to fulfill your requirements.

Since international business brings its own additional pitfalls, this article will focus on finding a business partner under the assumption that you have established a local company in the Chinese market and are searching for domestic partners.

Reputation of Chinese companies

Chinese companies often have a reputation for not being reliable, for outmaneuvering western companies in the negotiation of benefits and for underdelivering.

While all of this can be true, a stringent due diligence process can control this risk.

Indicators that might exist in other countries, e.g. a long company history, are not necessarily existing so that other indicators have to be used to assess the capability and reliability of potential partners.

Due Diligence

Depending on what kind of partner you are looking for, in what industry you are active and how strategically important they might be, the following due diligence steps are suggested:

Check Business License

The first criteria for every kind of business is to check their business license: Do they have one? Does the business license mention as business scope the intended purpose of a cooperation? Is the registered capital reasonable, does the registration address match the real location of the company?

Check other relevant licenses

Depending on the industry the potential partner might need/have other mandatory or optional licenses.

Auditing

An Audit to check their ability to deliver the goods or service in right quality and amount might bring insights, which go far beyond the formal criteria.

Before doing an Audit, consider what topics are critical to a successful cooperation and deeply discuss these with your potential cooperation partner. If required, ask for evidence.

Certificates

For many industries exist special certificates, either issued by the government or by private organizations which certify that a company follows certain standards.

Asking your supplier for certifications and verifying what they actually are worth might bring additional insights on the performance of a possible partner.

Credit Check

Especially for strategically important and/or long-term cooperations, engage a credit check company to get a deeper insight to their financial numbers and stability.

Due to the dynamic business environment in China, a "probably stable" business in China might look "risky" in other countries.

Please consider yourself how much risk you might take.

Reference customers

While reference customers can give you important insights into the ability of a potential cooperation partner, make sure to also qualify their identity and their opinion. It could always happen that a company lists a reference customer who actually was never in a business cooperation or who was, but was very dissatisfied.

Pricing

Even while in China relationships might play an important role in doing business, the factor of “pricing” should not be underestimated. It is definitely recommended to compare the offered price to similar relevant offers to estimate if they are adequate to the market. Pricing should just be one criterium amongst others though: Choosing the seemingly cheapest provider can easily lead to additional costs and risks in unexpected ways.

Check Facilities

Given the assumption that you already established your own entity here in China, you probably have seen lots of Chinese entities from the inside. While western standards not necessarily are comparable to the ones here in China, it is still recommended to get a personal impression on the facilities of the potential business partner. Especially in relationships in which your partner is supposed to sell your goods, you should be sure that he can represent the goods in a way that match your quality requirements. In supplier relationships, you can get an impression on their quality and process quality when visiting their facilities.

Contract

When entering contractual obligations, be sure that you do not give strategically important functions and/or intellectual property out of hand. Make sure that everything is under your control and that you can exit the contract if required. Contracts should also specify how to deal with quality problems, e.g. regarding compensation for lost working hours due to rework.

Bank information

To verify that the business partner is a legitimate business, request their official bank information (“开户许可证”).

Regular Re-Evaluation

Since entering a cooperation will (hopefully) lead to a fruitful long-term partnership, it is

important to keep in close contact with strategic partners and develop them in the way how you need them. At the same time, a regular re-evaluation considering their capability to deliver according to specifications, their pricing and the level of cooperation is definitely in place.

Incentives

Especially when the value chain of the company is highly integrated with customers, e.g. if they actually are the link between your company and the customers, incentives are often in place that might be more extensive than what you know from your home. While kick-backs and other financial incentives for reaching the targets are quite common, there are often additional measures which reach out much more: As a foreign invested company you can bring benefits like the organization of meetings in other countries by supporting with Visa-applications which can seriously support with the motivation of your business partners. At the same time, be sure to connect these travels with a relevant objective and ideally with targets that have to be reached to prevent abuse.

Domestic vs. international suppliers

Domestic suppliers often can provide a high flexibility in providing products according to your request. At the same time, for them it can be easy to over-promise regarding delivery time or provided quality. You should be sure that you choose a reliable supplier.

International suppliers, especially bigger companies, bring the benefit of added reliability at higher freight cost and more complicated processes, e.g. regarding import and a long leading time.

Possible shortages due to Delivery time & Company Shutdowns

Not only when you are using international suppliers, delivery time can be an issue: Especially when a market is in a boom phase, vendors not necessarily increase their production capacities to fulfill market

demand. Also, companies can be shut down due to a variety of reasons, e.g. violations of regulations, air pollution in the area where the company is located or during political meetings.

Quality

The quality of the incoming goods has to be checked to ensure that they fulfill the requirements for a smooth production.

A designated quality management might be helpful to achieve this goal.

If quality shortages are identified, it makes sense to try to get compensation for rework or sorting from your supplier.

Common Pitfalls

- One of the most common pitfalls seems to be that you chose a partner who is willing to provide a product or service which actually is not part of their business license. This can also lead to problems for you as their cooperation partner since not the right invoice (Fapiao) can be provided.
- Another common pitfall are promises made by the potential partner that are not been followed up on. To ensure that the delivered service or product lives up to the expectation, a careful drafting of the contract is recommended