

The Pros and Cons of Manufacturing in China



With all the volatility and uncertainty surrounding the Chinese economy right now, some companies who manufacture their products in China are starting to worry how it may affect their business. So now's a good time to revisit the pros and cons of manufacturing your goods there.*

Pros

1. Lower costs

Yep. We all know this one.

And, yep, there are probably some instances where, when you factor in shipping and duties, the costs of manufacturing domestically are possibly competitive. But, generally speaking, it's cheaper to manufacture in China (and for a variety of reasons). Not much more needs to be said.

Before you dismiss the importance of manufacturing your product for less, I would recommend speaking to anyone who has ever worked a day in retail. He or she will undoubtedly tell you that lower cost almost ALWAYS results in better sales. (And please don't give me the "What about Burberry? What about Louis Vuitton?" because those companies have spent hundreds of millions of dollars in marketing to help boost the brand as a luxury product. And you won't.)

So, the point is, the lower cost of manufacturing in China is an enormous "pro" as to why you should manufacture there.

2. Better Service

Admittedly, I'm writing this column as the opinion of ONE person with experience. And, in MY experience, Chinese manufacturers are far more likely to give you better service from the outset as a small startup than domestic manufacturers.

In the two retail businesses I've started, I reached out to domestic manufacturers first. In both situations, I either never received a phone call back from the person I spoke with or I was simply told that I was too small of a business for them to work with. This was my experience with each of the five to seven American factories that I spoke with. Who knows? Maybe yours will be different.

On the other hand, I never had difficulty finding a Chinese factory that was willing to work with me as a smaller company ("smaller company" = I'm not Walmart). The only time a factory refused my business was because I couldn't meet their high minimum requirements (more on this later in the 'Cons' section.) But if I could meet their requirements, then they wanted to do business.

Trust me, you can't take for granted that just because you're willing to pay for goods, someone is willing to make them for you.

3. Higher Output/Quicker Time

I never experienced a factory in China that was unable to produce a large order for me. Most times, when a Chinese factory tells you they can produce your order in four weeks, they produce your order in four weeks.

Based on anecdotes from colleagues of mine (since I've never manufactured in the U.S.), I've heard this isn't necessarily the case in the U.S. On several occasions, I've heard the common complaint that domestic manufacturing

capacity was limited in capacity or time or, at the very least, not nearly as robust as Chinese factories.

When I've worked with factories in China, I haven't run into this issue. In fact, their quick and aggressive turnaround times are impressive. I know some of you may claim unfair labor treatment as the reason for this, but if you have ever actually done business in China before, you know that many (but not all) of the factories indeed operate properly and pay their laborers a fair Chinese wage.

4. Duplication Capabilities

I'm not here advocating that you copy anyone. In fact, depending on what you're doing, you're more than likely going to find yourself in litigation if you do.

But for whatever it is that you're manufacturing, you don't always need to reinvent the wheel, at least for some of it. For example, if you're manufacturing shirts and you like the fit of Shirt Brand ABC, then buying Shirt Brand ABC and asking your Chinese factory to duplicate its dimensions and fit is an easy way to begin your product-building process.

Quite frankly, no one does that better than the Chinese.

Cons

1. Finding a Factory

The #1 reason why people don't manufacture overseas seems to be that it's just not easy to find a factory. But it's also not that hard. There are several ways to find a factory and I [go into detail on how right here](#). Sorry. I'm too tired to type it all again.

2. Language/Communication

For years, I've told people I'm bilingual.

I speak English and I speak Chenglish.

Chenglish is that hybrid language that you'll have to learn to communicate with your factory. Don't get me wrong. My hat's off to the Chinese who have done an incredible job learning our language. But they certainly haven't yet mastered it, and, as a result, you'll have to try to deduce what they're talking about at times. But you will. Just remember to use the same words to refer to something as they do.

Communication goes beyond language. The Chinese are very precise. They are very literal. They will take very seriously every word you say. So be careful with the words you choose. Use photos to help illustrate your points. Use webcams for meetings when necessary. Make sure you approve each step along the manufacturing process to ensure they are making your products properly. Especially at first.

3. Stigma

Let's face it: consumers have a lower opinion of products made in China. Ironically, they are almost always willing to pay less for something even if it's manufactured in China. (Don't believe the surveys you read about from time to time. People shop with their wallets before they shop with their patriotism.)

So expect some negative comments and feedback from time to time about the fact that your products are made in China. And learn to ignore them.

4. Higher Minimums

Chinese factories work on far lower profit margins than those in the U.S. As a result, they are almost never able to accommodate one-offs and, generally speaking, their minimums are often higher than other countries. If the number is so high that you cannot sustain your business manufacturing in China, then you need to consider manufacturing elsewhere. It's that simple.

5. Shipping (Expense and Time)

The cost of shipping from a remote city in China (where most factories are) versus the cost of shipping from somewhere in the U.S. will be drastically different. So you'll have to do the math on the "landed cost" (i.e., the final cost of your goods once they have arrived at your front door plus the duty cost you'll pay to the U.S. government) to determine the final price. Then compare it to the final costs (after paying shipping) of your domestic factory and you'll have an apples-to-apples analysis on how much money you're saving manufacturing in China.

Then there's the time difference. Shipping by sea takes at least 30 days. Naturally, shipping domestically can literally be one day. So depending on what you're selling, this may make a big deal. And consider the lost sales you'll have during that possible 29-day period when you don't have your goods in stock.

Depending on the size of your goods, you may opt to have them shipped by air from China. It's more expensive, but you can get your products at your front

door in two to three days. And sometimes, the cost of shipping by air is still less than the lost sales you'd have if you waited the 30-day ocean shipment time.

Again, it's all about the math.

6. Quality of Work (Sometimes)

China gets quite a bad rap for poor quality in manufacturing. In my experience, their manufacturing quality is not necessarily any worse (or better) than that in the U.S. But that all depends on the goods, too.

Again, from anecdotes and conversations, my understanding is that manufacturing more highly sophisticated goods (e.g., electronics) can be riskier than something simpler such as textiles (e.g., clothing). For the goods I've worked with (textiles), it's a big reason why China made sense for me.

Yet, with any factory -- overseas or domestic -- it will be important to stay on top of quality control because mistakes happen and shortcuts are made no matter where the factory is located. I used an agent when manufacturing in China who was responsible for ensuring the quality and accuracy of the manufacturing of our goods along the process. You may want to do the same. The cost is minimal and the benefits are priceless.

7. Unpredictability (Economic and Political)

I remember reading a book 15 years ago about the risks of working with factories in China and they listed "Unpredictability." I thought to myself, "Oh come on. What are the odds?"

Well...the odds are that economic or political factors may indeed play a role. I remember through the years of the Great Recession, we got unexpected price hikes that were caused by anything from currency exchange to the cost of oil. In fact, one year, the Chinese government actually mandated that prices be raised by factories! I remember talking to colleagues and, yes, we all got unexpectedly nailed for these increases.

So expect some of the same if you decide to work with Chinese factories. And while many of the price hikes can be palatable, they'll still throw you off and you may feel blind-sided.

Pros vs. Cons

Remember that when balancing the pros and cons, it's not an equal-weighting system. Depending on your business and your products, some factors weigh more heavily than others.

But please do not EVER let the intimidation of working with a factory of China be the reason you don't do business there. That seems to be a barrier to entry for many and it should never be.



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