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Blue Silk Consulting
Global Supply Chains

 Apprise



Quality Fade in China

By Rosemary Coates

Quality Fade, the process of quality degradation over time, is the single biggest issue in low cost manufacturing countries. It happens frequently in China where manufacturing processes are immature and competitive pricing drives the profits to extremely low levels. It also happens in Vietnam, Indonesia, Bangladesh and other low-cost countries.

You have probably noticed quality fade, but didn't know what to call it, or understand how it happened. Maybe you noticed a plastic shampoo bottle that seemed too thin. Maybe that hand-held electronic game you put in your son's Christmas stocking stopped working after a few days. Maybe the zipper in your pants broke after a few zips.

Quality fade is a particular problem for products coming from China, where nearly 40% of the world's production now takes place. This startling fact about the tremendous volume of goods produced in China is evidenced at the chemist's, department store, big box retailer and the grocery store. The ubiquitous "Made in China" label can be found everywhere. These products are initially equal or superior in quality to Western-made goods, but over time, quality begins to fade. Sometimes poor quality is just an inconvenience and sometimes



it is downright dangerous.

Products manufactured or assembled in low cost countries, aren't designed to break or poison anybody. In fact, typically when a new contract is signed and specs are given for initial production at a new supplier, importers of Chinese goods are thrilled. The vendor's service levels are outstanding, the quality is above expectations and the future looks bright. Customers are pleased with the price of initial production, and they assume that it will last. New importers feel like they've hit a home run with low-cost country sourcing.

Don't be fooled! The initial production runs are often not sustainable. Over time, degradation in quality is likely. For example, the label on your product becomes 10 per cent smaller, your 100 ml product may actually be 99 ml, non-toxic paint you specify for toys may become fast-drying lead paint, the 5/8 inch seam may become 3/8 inch.

The China Price

Business deals in China are so competitive, that a manufacturer will often quote a price below their actual production cost just to attract buyers to an irresistible deal. This is what is commonly known as "The China Price." Once the contract is

signed, the manufacturers look for ways to reduce costs and turn a profit. Typically, this results in short-cutting processes, reducing size or volume of the product and using cheaper ingredients or materials.

Typical production lot sizes in low-cost manufacturing countries are multiples of thousands. This is what low-cost manufacturers are good at: producing huge volumes and repeatable production. Once manufacturing processes are learned, they simply repeat the process thousands or hundreds of thousands of times. Even a small reduction in cost makes a huge difference over the enormous volumes.

Emphasis on Cutting Costs

Over time, Western buyers expect the learning curve to improve production quality. This is not the way a typical Chinese manufacturer thinks. Instead of continuous process improvement and learning curve efficiencies, emphasis is placed on cutting costs.

For a manufacturer in a low-cost country, as soon as the contract is signed and production begins, cost reductions start. This typically involves using "shadow factories" where longer working hours, less safety measures, and jammed

35% - 40%
of the world's
production is already
in China.

70% of economic
production in China
is now (2009)
from privately held
enterprise.

Within **10 - 15**
years, China will be the
largest economy on
earth.



dormitories result in lower overall production costs. Costs for shadow factories are averaged with the cost of five-star factories to achieve a lower overall total cost.

Cost reductions may include the use of cheaper materials and skipped process steps, regardless of the production specs and the contractual language. The Chinese manufacturer knows he must reduce costs because the “China Price” is below his costs.

This slow degradation of quality may not be noticed for a long time or until something breaks, someone is poisoned or someone is hurt.

Chinese New Year

Just before Chinese New Year (typically 2 weeks in February), and just afterward, you may also experience degradation in quality. Just like the Western Christmas-New Year holiday period, the Chinese New Year is a celebration with family that lasts about 2 weeks. During this time, migrant factory workers travel home and factory towns shut down. During the few weeks before the holiday, Western importers pressure the factories to complete production runs before the factory closes. The increase in schedule pressure causes long working hours and a focus on

moving as much production through the factory as possible. This results in an increase in production errors and overall relaxation of quality standards. Volume and schedules become the priority, not quality.

The few weeks after Chinese New Year are also problematic. Many migrant workers go home for the holidays and never return to the factories. The result is 30%- 40% turnover of factory workers, and many new trainees. Quality suffers during the post-holiday ramp-up time for new workers.

So What Should You Do?

Even though you have done your homework, checked factory references, visited and audited the factory, and viewed a sample production run, you may still suffer from production quality fade. If you are sourcing from a low-cost country, you must be vigilant about quality over the entire term of the relationship.

When you are negotiating the initial deal, try to verify the true cost of production, and fight the urge to force prices too low. If you want to avoid constant cost-cutting by the manufacturer, you must be willing to pay reasonable prices.

There are **350** million middle-class citizens in China.

There are **130** million migrant workers from rural China – largest migration in human history.

Population of China is **1.3 - 1.5** billion depending on who is counting.

Start with the initial engineering and design specs. Be very specific about every part and material that is to be used in your product and then explain that the products will be carefully inspected for conformity prior to final payment for the goods.

Westerners often leave production details off of the design, assuming that manufacturing engineering will complete the specifications. It is highly unlikely that this final engineering step will take place in low-cost country manufacturers. Factory management will view this lack of detail as an opportunity to substitute lower quality parts.

You must assume a supervisory quality role over the factory to guard against substitutions and short-cuts in production. You should visit (both announced and unannounced) at least once per quarter. You might consider hiring an in-country person who speaks the local dialect to sit in the factory and monitor the processes.

You may also want to hire a QA lab such as Bureau Veritas, to test the finished product. This may be particularly important for food products and toys. The problem with this approach though, is that it is quite expensive and you have to ask for specific tests. If you do

not know what specific ingredient you are looking for, you won't know what to test.

Fundamentally, remember that unlike the Western world, quality is the buyer's responsibility in the low-cost country manufacturing world. You must take responsibility for verifying quality and fighting quality fade.



About the Author: Rosemary Coates

Based on her 25 years of supply chain experience, much of it spent living and working across Asia, Rosemary Coates has become an expert in sourcing and manufacturing in China. Ms. Coates is the President of Blue Silk Consulting. bluesilkconsulting.com and the author of: **42 Rules for Sourcing and Manufacturing in China.** (Available at Amazon.com)

Factory girls doing electronic assembly work in the Pearl River Delta earn about **\$100/month.**

China has **150** million China manufacturing jobs. India has **10** million. The US has about **20** million.

About **70%** of all legal factories in China have shadow factories.

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