

## NEWSLETTER # 5 / 2009

Newsletter edited by the Asquance France team

Hello,

### A book and a salute

We have just finished a book that was so good we had to mention to you. It is "poorly made in China" by Paul Midler. The anecdotes, wit, style and learning value are on a par with that other favourite of ours, "Mr China" by Tim Clissold, which we had recommended to our friends a few years ago.

**Subject: The problems met in China by foreign corporate buyers and traders.**

Scenario: a young American fresh from MBA school decides not to become a banker (he has our sympathy) and instead sets up shop as a management consultant to companies that OEM / ODM in China. The book narrates in great detail his adventures in the shark infested world of China factories. It is written with wit but the subject has never been so pressing.

**A must read !!**

### OEM / ODM / OBM: WTF TLA ?

The terms OEM and ODM are often used to describe the client – factory relationship described in the book. These terms can be confusing. What are they about?

- Original Equipment Manufacturer (OEM): This term is said by Wikipedia to have been coined in the 1960's by IBM. In the initial meaning the factory, maker of a component to be integrated into a finished product will be the OEM of the component. By extension a factory, manufacturer of a finished product branded by its client (and therefore unidentified to the end user) is an OEM. Note: in some cases OEM means the factory's client rather than the factory. It is confusing, and the key point is that the product is specified in detail by the client, and the factory executes the client's spec exactly.
- Original Design Manufacturer (ODM): in this case the subcontractor will take over product development and be responsible for matching client specifications. The factory will settle design issues, bill of materials, etc. The client brands the product.
- OBM, meaning Original Brand Manufacturer, appeared recently and is less frequently used. It is a bit of a marketing gimmick for factories. It is basically the same as ODM with the idea that the factory does all the work and proposes a product that is ready to label.

We will not unveil the full contents of the book, it would not be fun. But know that the following topics are covered:

- Product quality 'fade'
- Cost down exercises unilaterally started by the factory
- Intellectual Property risk
- Unauthorised product modifications making it illegal in destination country
- Quality blackmail to renegotiate the initially agreed price during production.
- Invention of raw materials supply issues (cost, quality) to justify a cost increase
- Direct sale by the factory of client branded products to sales territories not covered by the client.
- Exhibition of client branded products in showroom and trade shows to win

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business from the client's customers and/or competitors.

- The factory displays as samples of its own manufacture sample products that have been sent over by prospective client for industrial evaluation, or the factory announces working with a well known brand when they have in fact participated in a tender once and lost it.
- Price blackmail using whatever argument just before an urgent delivery
- Karaoke and Chinese hostesses
- Dissertation on the art of being taken for a ride if one doesn't come prepared to the game, and conspiracy theories.

Good news for Asquance. We won't say that we have seen it all, but have seen all of these and some more.

## **This is why we created Asquance.**

Our salute is to Philippe Spruch, founder and CEO of LaCie, who had seen it all before even coming to China. Now that is something. Our hats off, Mr Spruch !

We could not help to notice a few shortcomings from the author in his dealings with Chinese contractors:

- Contract specifying rights and obligations of each party, and setting realistic penalties. Contract law is maturing in China and contracts are enforceable all the way to punitive injunctions or damages (if the contract is written in Chinese, taken to a Chinese court and settled in China). We can help you by providing standard contracts in Chinese.
- Check of titles and licences: China is an extremely controlled country (internally, that is) and many activities are subject to licence. To check licences is also to check the capabilities of your business partners, not to mention their truthfulness.
- Creation of second sources (yes it takes time, no you cannot control suppliers without it)
- Consignation of some components to control production volumes. For example a key functional component, a logo or a special tag (for example rfid).
- Quality Control must be performed systematically on the basis of firm specs, and decisions enforced
- To say it very diplomatically, Paul Midler got his learning curve paid for by his customers, a bit like Tim Clissold did before him!

## **If Paul Midler had hired Asquance he would have avoided many problems!**

Yours sincerely  
Thuy Marchal  
President

### **Who we are:**

Asquance was created by European, American and Asian managers to help growing companies optimise their sourcing, quality and procurement.

From its bases across China, France, Vietnam and India the Asquance team employs robust collaborative tools to optimise client supply chain and product development.

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