

CSIC White Paper  
Selecting Service  
Providers to Support  
China Sourcing  
Projects



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## **Summary**

Written by the staff of the Shenzhen-based China Sourcing Information Center (CSIC), this whitepaper is designed to give the reader the tools needed to find and select an appropriate service provider to support their China sourcing projects.

## **Target Audience**

Buyers sourcing or interested in sourcing from China

## **About the Publisher**

Founded in 2010, the China Sourcing Information Center (CSIC) is a not-for-profit organization that exists to educate, develop, and advance the China sourcing profession. Support from corporate sponsors and donations from individuals help keep the following services available to the public free of charge:

- China Sourcing eMagazine
- China Sourcing Conferences/Seminars
- Ask the Experts Service
- Video Tutorials
- Sourcing Blogs

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## Introduction

The single most important factor in determining the success or failure of your sourcing program will be finding the right partners. As recently as ten years ago it was much harder to find professional China based firms providing support to foreign buyers. The situation has changed dramatically. Today it is no problem to find a list of potential service providers as there has been an explosion of service companies operating in China in recent years.

However, making apples-to-apples comparisons of service providers in China can be daunting and it can be very difficult to pick the right service provider that is a good fit for your particular needs from a large group of options for the following reasons:

1. There is no entity at a national level in China such as the Better Business Bureau in USA in to regulate and monitor the service levels offered by firms in the PRC. In other words, there is **no code of ethics**. You will encounter both Chinese and Foreign firms in China who exaggerate their capabilities. In short, there is a lot of over promising and under-delivering and a nice website is no real indication of a firm's professionalism.
2. In the past few years, China has seen a spike in the number of foreigners moving to China. Many come as exchange students or English teachers. After a short period of time on the ground, their knowledge of the language and business culture (which is often quite limited in reality) is perceived to be substantial in the eyes of overseas buyers who themselves may have limited experience in China. In essence, it becomes a case of the **blind leading the blind**.
3. There is a massive population of ethnic Chinese living overseas. While they may understand both Chinese and English for example, **ethnicity alone is not a replacement for sound business experience**. For example, it is not unheard of for Chinese exchange student in the USA to be tapped by local businesses to help with their Chinese sourcing projects. Pulling the top student from the Biology department and asking them to be your

representative to Chinese suppliers is more times than not, a recipe for disaster.

4. Distance, time, language and culture create a **lack of transparency**. Buyers may not know clearly what the consultant is doing and where the advisor's compensation is taking place. Buyers need to be very concerned about the "double dip." It is not uncommon for agents engaged in China sourcing to charge the client a commission only to also have a hidden payment from the supplier behind the scenes. The result is that the agent works for the supplier when you think they are working for you. In short, as there is a lack of transparency in China business, it is essential to pick a service partner with high ethical standards and a proven track record.

## **Selection Strategy**

Engaging 3<sup>rd</sup> party support can be an effective method to improve your sourcing program, or it can be a total waste of your time. Here are some criteria to help you select effective service providers.

- ✓ Are they a legitimate company with proper business licensing?
- ✓ Do they have a clear track record of performance? If they can't give you some client references, run away. That is a very big red flag.
- ✓ Do they have their own infrastructure or do they leverage another company's staff, skills sets, office space, licensing and/or manufacturing.
- ✓ Are they focused on a certain set of services or do they try to do everything for everybody? Yes, even the 3<sup>rd</sup> party service providers have been known to outsource to others just like some factories outsource production without telling the buyer.
- ✓ Is their pricing structure and service agreement well defined and transparent? It is a major pitfall to do business with a 3<sup>rd</sup> Party service

provider without a clear contract in place that outlines the service, costs, time frame and other desired attributes of the partnership.

Additional notes for selecting a 3<sup>rd</sup> party logistics (3PL) provider in particular are found in the appendix.

## Conclusion

Looking at locally owned and multi-national service providers as separate group, you will find there some great companies and a whole lot of not-so-great companies among both groups operating in China. You would be doing yourself a disservice if you ignored one group to focus on the other. Instead, it is suggested that you look at all options and make an educated selection. Regardless of the nationality of the service provider's ownership, you absolutely need to validate your assumptions if you believe the firm is a good fit for your requirements.

## Recommended Reading

	<p>“China Sourcer” is a free e-magazine published monthly by the CSIC. Subscribe at <a href="http://www.ChinaSourcingInfo.org">www.ChinaSourcingInfo.org</a></p>
	<p>Also available at CSIC:</p> <ul style="list-style-type: none"><li>• China Sourcing Conferences/Seminars</li><li>• Ask the Experts Service</li><li>• Video Tutorials</li><li>• Endorsed Service Providers List</li><li>• Sourcing Blogs</li></ul>



[The Essential Reference Guide to China Sourcing](http://chinasourcinginfo.org/book/)  
([chinasourcinginfo.org/book/](http://chinasourcinginfo.org/book/))

Written by CSIC board member, Mike Bellamy, this book offers additional tools and strategies for finding and managing suppliers and service providers in China.

### CSIC Endorsed Service Providers

The not-for-profit China Sourcing Information Center posts for the buying public a [list of endorsed service providers](http://chinasourcinginfo.org/endorsed-service-provider/) at <http://chinasourcinginfo.org/endorsed-service-provider/> which at the time of writing covers the following categories:

<ul style="list-style-type: none"><li>✓ <a href="#">Business Intelligence, Investigations, and Surveillance</a></li><li>✓ <a href="#">Inspection Services &amp; Factory Audit services (3PQC)</a></li></ul>	<ul style="list-style-type: none"><li>✓ <a href="#">Online Resources Company Formation</a></li><li>✓ <a href="#">Engineering</a></li><li>✓ <a href="#">Outsourced Accounting</a></li><li>✓ <a href="#">Due Diligence</a></li></ul>	<ul style="list-style-type: none"><li>✓ <a href="#">Sourcing/Purchasing Agents</a></li><li>✓ <a href="#">Dispute Resolution</a></li><li>✓ <a href="#">3rd Party Logistics (3PL)</a></li><li>✓ <a href="#">Lawyers</a></li><li>✓ <a href="#">Tool &amp; Die Shops/ Tooling Stewards</a></li></ul>
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*The companies listed in the above links are by no means a comprehensive list of all the possible 3rd party service providers available to the reader. However, all of the endorsed service providers profiled in the above links are made up of reputable companies that CSIC members have worked with and can recommend with confidence. The services and cost structures of these companies may change over time, but at the time of writing, the companies mentioned have demonstrated to the CSIC advisory board clear value and professionalism.*

## Appendix

Additional notes for selecting a 3<sup>rd</sup> party logistics (3PL) provider in particular.

1. Pick up the phone book or do an internet search with key words such as “3PL” or “Freight Forwarder” + “name of port”. This will most likely generate a significant list.
2. The next step is to contact them and learn if they will be a good fit for you. I like 3PL’s that have at least 5 years of experience importing product from China into the given port.
3. And as I have mentioned a few times before, it is worth saying again, if a service provider can’t give you a list of client references they probably aren’t worth doing business with.
4. Once you narrow it down to a hand full of option based on initial talks and references, ask for an estimate on freight. What separates the great companies from the good ones will be the format and timing of their quote. If they more than a few days to get back to you, it probably means that they don’t have well developed shipping channels and are trying to set something up just for this order. Try to avoid having your order serve as some 3PL’s first attempt at doing business with China. Pay special attention to the format of their quote. It should be an actual form based on a template, not just a few sentences or pricing sent via email. If they don’t have a set format for estimates or quotes, that is a real bad sign about the level of their professionalism. The quote should be easy to understand and if you are unclear about a particular line item on the quote, then the 3PL should be able to explain to your satisfaction. Don’t be afraid to ask questions! Better to ask in advance before getting hit with surprise charges later.
5. Shipping rates change on a day to day basis, and unless you are ready to ship immediately after receipt of the quote, most likely the quote will be an estimate. So we like 3PLs that will hold their quote valid for a certain time or at least offer to re-quote closer to the actual ship date so that the buyer knows the exact costs in advance.
6. On countless occasions I have had shippers send me invoices after delivery which were much higher than the agreed estimate. So as you are confirming price, ask the powerful question “Does this price include

everything to get the product from X to Y, even taxes, duties?”, “Is there anything that is not included?” and “Will you put in writing that the amount to be invoiced will not exceed the agreed estimate?”.

7. It also helps to negotiate your terms with the shipper so that the goods are paid upon delivery, as opposed to paying them upfront. But actually, you don't have a lot of leverage because the shipper has physical control of your goods and could choose not to immediately release them if there are any confrontations about pricing at the last minute. So it is very important to find a professional company upfront and negotiate the terms and pricing well in advance.