



**PFINGSTEN
PARTNERS LLC**
Building Better Businesses

HELPING A DRAGON SPREAD ITS WINGS

How Chinese Sourcing Strategies Can Grow Your Business In A Changing World

CHINA — it's the country that everyone is talking about. China's booming economy. China's trade surplus. China's 1.3 billion people.

China's economic growth has been praised by some, feared by others. But while the strength of the Chinese economy represents a paradigm shift in the global business environment, U.S. businesses should not fear the implications of the Chinese boom.

Instead, American managers should work to embrace the benefits that Chinese economic growth can offer their businesses and begin to make peace with this burgeoning giant.

If China is the country that everyone is talking about, outsourcing is usually the theme of the conversation. More and more businesses are sourcing products from China, where labor is abundant and relatively inexpensive, and manufacturing processes have been refined by increased market demand.

Rising pricing pressures have increased global competition, creating a race to the bottom line and forcing companies to procure products from the lowest-cost sources globally.

China has become a recognized power house in global production and supply chain operations. Sourcing product from China allows companies to obtain savings of 20 percent to 40 percent, ultimately driving down prices and making businesses more competitive.

This downward pressure on prices delivers tangible savings to a company's bottom line, all the while improving cost structures and making goods more affordable. The end result? Increased profits for businesses and abundant choices for consumers.

The benefits of implementing a sourcing initiative are clear, but oftentimes managers are unsure of where to begin. There are three steps businesses can follow to help simplify the process and maximize their return.

STEP ONE: START SMALL

All too often, businesses that have decided to source products from China begin with their most popular or expensive product.

But business owners should recognize that there is a learning curve associated with sourcing products from global markets and should begin their sourcing experiment with a simple product to test the initiative and make adjustments if needed.

STEP TWO: FIND THE RIGHT PARTNER

For businesses that choose not to establish a greenfield manufacturing operation or acquire an existing manufacturer, choosing a suitable agent or sourcing office is the business equivalent of finding a spouse; it is one of the most important decisions a business can make.

Factors such as duties and tariffs, as well as transportation and freight forwarding costs, should also be considered.

Outsourcing part of a business's production process or supply chain can carry costs unfamiliar to U.S. businesses, and managers should take care to calculate and analyze these costs before deciding on specific business partners.

STEP THREE: MEASURE PERFORMANCE

After managers have outlined the sourcing strategy, they should establish a system to monitor, record and report the results of their sourcing experiment. They should monitor product quality, as well as the movement of products through the supply chain, in order to identify areas in need of improvement.

Each business partner should understand its role and responsibilities, and the performance of the global sourcing initiative should be tracked and discussed. Where have cost reductions been attained? What impact has the sourcing initiative had on product lead times and inventory levels? How has the operation affected the company's bottom line?



DENNY BOLZAN is a Managing Director at Pfingsten Partners, L.L.C., an operationally focused private equity firm located in Chicago, IL.

Managers should consistently re-evaluate their sourcing initiative in order to refine and improve their strategy.

Paradigm shifts within the global business environment have always been met with a mixture of praise and fear. China's rise as a global economic power raises serious questions regarding the future of outdated business processes, inefficient cost structures and protectionist economic policies.

But it also offers Americans business owners an opportunity to leverage the strengths of the Chinese business environment and improve their own businesses. In the upcoming years, the Chinese economy will continue to grow, and American businesses will be forced to further adapt their behavior in order to accommodate China's presence.

The best strategy to manage change is to embrace it, and adopting global sourcing solutions is the first step toward making peace with a rising star. ■