

THE SAFE SUPPLIER GUIDE[©]



SOURCING WARRIOR
DISCOVER HIDDEN PROFIT

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Would you put on a blindfold before jumping off a cliff? I bet you wouldn't – not when your life is on the line.



Many people start a new business with a blindfold on, thinking, "It's OK; everyone makes mistakes." To run a business successfully, however, the real question is never about whether you'll make mistakes. The real question is:

How much will those mistakes cost you?

As an entrepreneur, you know that taking risks is part of the game. But you should always remember: **NEVER TAKE THE BLIND RISK.**

This Safe Supplier Guide© is designed to stimulate your thinking, forcing you to ask questions and to calculate your risk before committing to a business deal.

I: X-RAY THEIR BUSINESS

“Product images and samples are like the leaves of the tree. They are distractions for the eye before you discover the real tree.”

Online sellers have learned to use beautiful HD photos to catch a buyer’s attention. When we search for suppliers online, we are easily distracted by a supplier’s product images.

When we meet suppliers at tradeshow, it can be even worse. While we’re touching and examining their products, we can completely forget to ask the important questions about their business.

A supplier’s business is just like a tree – it has both leaves and roots. Product images and samples are like the leaves of the tree. They are distractions for the eye before you discover the real tree.

To examine a supplier’s business, ask these 3 fundamental questions.

1. How Many Years Has the Supplier Been in Business?

The number of years in business represents the root of the tree.

A young company that has been in business for only 1 or 2 years has shallow roots. It will be difficult for such a business to weather environmental or political challenges.

As an example, when the Chinese government enforced their environmental policies a few years ago, many young factories closed their doors because their owners did not possess sufficient capital to bring the factory into compliance.

To gauge a business's maturity, Tao says, "One manifests two; two manifest three, three manifest infinite possibilities."



- ❖ If you are starting a new business, aim for 3 years to see it to fruition. If you are looking for a supplier with whom you can partner, choose one with a minimum of 3 years of business history.

This 3-year rule also applies to an Alibaba supplier's selling history.

Perhaps a supplier has been in business for 10 years, but has only been selling on Alibaba for 1 or 2 years. Is this good enough? No – because Alibaba is a very competitive selling environment. Many suppliers don't make money, and some eventually withdraw from the Alibaba platform.

And once a supplier disappears from Alibaba.com, your transactions will lose the protection provided by Alibaba's Trade Assurance. The main advantage of using Alibaba is the leverage provided by its trade assurance function – if you lose this protection, the risk of doing business with the same supplier increases drastically.

How Many Employees Work in the Company?

The supplier could be growing quickly or growing slowly. The number of employees can be a good health indicator for the supplier's business.

For example, a company that has been in business for 10 years, but has only 30-50 people, is very likely to be a mom-and-pop shop or a trading company.

Would you do business with a mom-and-pop shop? There are many benefits of doing business with such a shop, such as lower price, lower MOQ, and more customization flexibility.

However, you should also know that the mom-and-pop supplier will often lack standard processes for controlling quality. The owner knows it all; the operation runs on tribal knowledge. And if your business grows, it's hard for you to scale with a mom-and-pop shop.

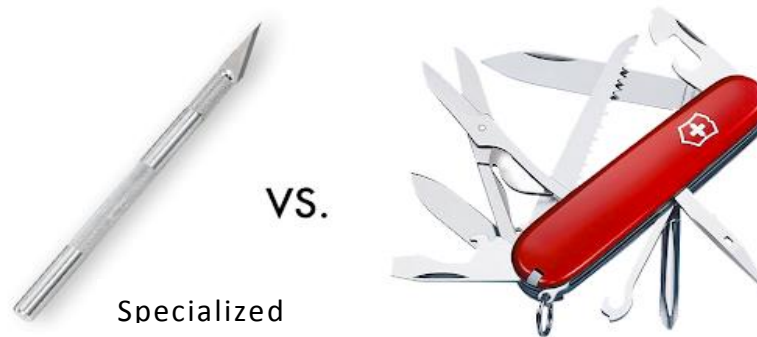
Here's a quick reference table for business size:

i.	< 50	Mom-and-pop shop or trading company
ii.	50 - 100	Small-sized factory
iii.	100 – 250	Medium-sized factory
iv.	250- 500	Large-sized factory

- ❖ Aside from assessing a supplier's financial stability, selecting the right supplier also depends on your budget and your vision. If you have a large budget and you are in it for the long game, picking a medium-sized supplier to invest in is probably a good choice.

2. How Specialized Is the Supplier?

When I look for a supplier, I put a lot of emphasis on the supplier's specialty. The supplier's specialty represents its *key capability*.



- ❖ The more specialized a supplier is in making one type of product, the higher the product quality will be, and the more innovations will be able to come out of the factory.

I'll share 3 tips to help you discover the supplier's specialty.

Tip #1: By Business Name Composition

In the video [Alibaba Sourcing Hacks](#), I provide detailed explanations on how to tell a supplier's specialty, simply by looking at its business name.

A quick example:

Supplier A: Jiang Su Hai Yan [Rubber] Co. Ltd.

Supplier B: Jiang Su Hai Yan [Machine] Co. Ltd.

If you are looking for a yoga mat supplier, Supplier A's business name is already providing a clue.

Tip #2: By Product Portfolio

Many suppliers start their business with a single product. As the business grows, the product line will expand. When you examine the supplier's product collection, pay attention to HOW the product line expands.

- ❖ If the product expansion stays within the business's specialty, this is a good sign, because it shows that the supplier has grown its business with more innovations, but has not lost its business focus.

For example, consider a rubber company that has expanded its product line from raw rubber products to a collection of yoga mats and resistance bands – the product portfolio reveals both the business growth and the supplier's specialty.

But what if you see a product line sprawling into a variety of sports products, including yoga mats, dumbbells, and jumping ropes? Is the supplier still specialized in making yoga mats?

Let's use Tip #3 to find out.

Tip #3: By Their CORE Product

If you find yourself getting lost in the supplier's huge product collection and unsure if the supplier is specialized in the product you are looking for, ask this question:

“What is your core product? And how long you have been making that product?”

With the answers to a) how long they have been making their core product, and b) how long they have been in business, you will get a good feel for whether the supplier is actually specialized in making its core product.

Bonus Tip: To add onto the core product question, you can even ask, “*What percentage of your total sales does this product generate?*”

II: X-RAY THEIR PEOPLE

When it comes down to selecting a supplier, the “people factor” is significantly undervalued and overlooked by many new buyers.

I have fired many suppliers simply because it was too frustrating to deal with an incompetent salesperson. It can become a full-time job to babysit a sloppy salesperson, and he or she could ultimately cost you a lot of money.

- ❖ When dealing with overseas suppliers, the salesperson is the single bridge between your wallet and your final product.



I recommend seeking these 3 key qualities in your contact person.

1. Experience

The longer the salesperson has worked for a supplier, the more *product knowledge* this person has, and the more *internal influence* this person can wield within the company.

An experienced salesperson can add a lot of value to your business, especially if you need to customize a product manufactured by their company. If you are buying stock products off the shelf, this factor won't matter as much.

"How long have you worked for this company?" A simple question like this can get you the answer. If his or her experience is too short, you can ask, *"What did you do before this job?"*

A minimum of 2-3 years is what we are looking for.

2. Attitude

Ignoring your questions or not answering your emails in a timely manner are signs of bad attitude –this person either doesn't care about your business, or doesn't care about his or her own job.

If you want to build your business successfully, don't tolerate a bad attitude. There's a long road ahead of you; if you think it's miserable now, wait until you have an active purchase order and money on the line. It will only get worse.

How, then, can you assess personality and attitude as early possible? And how do you find out if you can build a rapport with this person?

Here's a trick.

- ❖ Connect with the salesperson on an app like WeChat or Skype. Send casual, funny messages, or share something personal. See their response. You can tell a lot about a person by taking the conversations offline.

3. Accuracy

In my opinion, the salesperson can be inexperienced, and can even have a bad attitude – occasionally – but this person cannot be sloppy.

Once again, I will say, *“Everyone makes mistakes, but how much your mistakes will cost me?”*

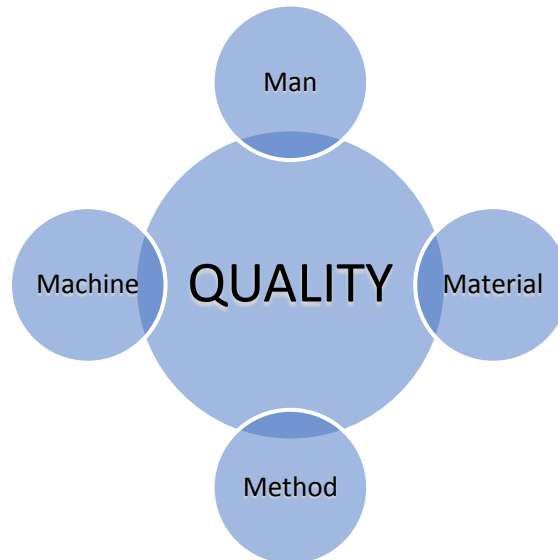
Accuracy is the single most important quality in your contact person. Your product quality is highly dependent on how accurately this person can communicate your specifications and requirements to the production floor.



- ❖ As I emphasized a supplier’s “people quality,” I also need to stress the importance of relationship building. Relationship (GuanXi) is the currency you can use when you need favors. (See Masterminding© - Supplier GuanXi Building)

III: X-RAY THEIR QUALITY

Quality is the soul of your product, the DNA of your brand. Before you have this supplier fabricate your product, it's crucial that you examine supplier quality capabilities from these 4 aspects.



Man, machine, material, and method: each one contributes uniquely to product quality. Let's examine these one by one.

1. Man

Man represents the workers' skill.

When you examine the supplier's online pictures, pay close attention to the production area. Can you see how the production line is designed? If you can see a well-designed production line where workers are stationed side by side, this is a good sign.

- ❖ When each worker is assigned to one task and one task only, day in and day out, it leads to higher product quality.

2. Machine

Machine quality is undeniably a key contributor, especially to less labor-intensive products. A helpful example of this is plastic kitchenware, which is largely injection-molded. The quality of these products is directly dependent upon the quality of the mold.



Plastic Spoon Injection Molding

In the larger factories, you will see more machines, and often more state-of-the-art machines. In smaller factories, you will see fewer machines, and those machines will often be more outdated.

If your product is highly machine dependent, you need to examine the supplier's machines closely. Compare 2 suppliers' machines side by side.

Ask questions if you don't know exactly what a machine does. Don't be afraid to ask the "*what, how, and how many*" questions about the machine.

- ❖ State-of-the-art machines tend to produce higher-quality parts. Old machines could produce parts that need rework or a second operation (due to wear and tear).

3. Material

Material quality needs to be examined with a magnifying glass. I recommend that you look beyond just the product certification in the supplier's profile. Product certification matters, but material specification matters even more.



- ❖ Peel back the layers of the onion and ask deeper questions – for example, *“What materials do you use to produce the inner layer of the product?”*

4. Method

Production method varies factory by factory. The differences might show themselves in the work sequence, in the tools and fixtures utilized, or in the methods of assembling and packaging the parts.

- ❖ Within the same factory, the consistency of the production method determines the consistency of the product quality.

To ensure consistent quality, good factories rely on standard operating procedures (SOP's). Regardless of permanent changes within the workforce (e.g. a key worker quits) or daily changes to the workforce (e.g. shift changes), a good SOP will provide a roadmap to attain consistent quality in production.

To help broaden my students' quality control knowledge, I have dedicated the entire module of Quality Control A-Z, as well as a separate Module of LEAN manufacturing in the Mastermind© course.

My advice to you is this: Take quality control into your own hands. Don't leave it to chance.

IV: X-RAY THEIR HONOR

If you have a product that is design sensitive, you must do everything you can to protect your IP (intellectual property) *before* you share any specific drawings or customization ideas with the salesperson.

This quote from George MacDonald is one of my favorites:



Trust is a rare commodity in the business world. Always act with caution when dealing with suppliers, especially when dealing with Asian suppliers.

To be clear, acting with caution does not mean assuming that every supplier will steal your design. This degree of suspicion is not healthy; it will ultimately prevent you from building good GuanXi (relationship) with your suppliers.

- ❖ **To act with caution means that you must take responsibility and carry out your own due diligence to prevent the supplier from working in a manner potentially harmful to your business.**

How can you carry out this due diligence before buying actual products from the new supplier?

Let's give them some tests.

1. The Intention Test

You may be familiar with the Non-Compete, Non-Disclosure, Non-Circumvention Agreement, or NNN Agreement. This agreement is often used to prevent the seller from using the buyer's design to compete directly with the buyer.

To perform the intention test, you will need to use an NNN Agreement. Initially, you don't have to have an actual copy written up; you just need to refer to the agreement by name, in order to test the supplier's intentions.

Begin the test by sending this message to the salesperson:

"This product design is very unique. We have every intention of protecting this design. Is your company open to signing an NNN Agreement so we can proceed to [next step]?"

The 'next step' could be ordering the first product sample, or it could be placing the first purchase order.

- ❖ The simple gesture of asking the supplier to sign the NNN Agreement signals to the supplier that you are serious about protecting your IP.

If you do not make this inquiry, you will be leaving the door wide open for the supplier to assume that they can do as they please with your design.

Again, never assume that the supplier will steal your design, but always take precautions. Put things in place to prevent bad things from happening - this part is on you.

2. The Possibility Test

How easy is it for the supplier to take your design and sell it as their product? In the Mastermind© course, we have this question for the supplier (reference the “Supplier Audit Questionnaire”):

“Is your company currently selling on Amazon.com or another eCommerce websites?”

You can determine this in either a formal or a casual manner, though a casual manner (e.g. WeChat or Skype) is more ideal – you are less likely to receive a guarded response. Whatever the case, find out as early as possible if the supplier is currently selling on any eCommerce websites.

If the supplier is an eCommerce seller, it will be relatively easy for them to take or modify your design to compete with you.

If the answer is no, however, that’s great. The factory may not have any intention of retailing through overseas eCommerce platforms; or even if they do, it will take them some time to come up to speed on the store setup and the new product launch.

3. The Betrayal Test

Would you ever want your competitors to know your product sources? Never. This is your trade secret. But would this new supplier share your information with your competitors?

Let's ask:

“Can you share with me some of the customized products that you've done for other Amazon FBA sellers?”

Take note of the supplier's response. If they share information from other customers with you, then you will need to execute the NNN Agreement to ensure that your information is kept confidential.

SUMMARY

Business, people, quality, and honor. Examine each new supplier to calculate how much risk you are taking.

Building wealth is a serious journey, and sourcing is a big part of that journey, as you will be spending most of your money (and time) dealing with suppliers.

I hope this Safe Supplier Guide© sharpens your mind. If you want to learn more from me, visit www.sourcingwarrior.com for more information or join the [Sourcing Mastermind©](#) today.



ABOUT YUPING WANG



I am the Founder of the Sourcing Warrior™. The passion for sourcing runs deep in my blood otherwise I would not have done it for 20 years. My suppliers would say these 3 things about me: Yuping is a tough negotiator, a strong relationship builder and a tenacious profit finder.

Out of all people, how could I become the top supply chain professional in the nation?

When I first came to the USA, I had nothing and knew very little English. But in my mind, there was an uncompromising desire to be the best in everything I do. I put myself through law school in China. In the USA, I pursued the best-in-class training. MBA, CPIM, CSCP, Six Sigma Black Belt certifications are tough to get but are incredibly valuable for my sourcing career.

Professionally, I only want to compete in the most demanding companies. Some are Fortune 500s, some are Hi-Techs, some are small businesses, but all of them are incredibly competitive in the field of sourcing, that is exactly where I excelled.

The experience I gained through 20 years of sourcing is now condensed into Sourcing Warrior's programs to serve more people. As I hold myself to the highest standard of honesty and integrity, I work hard to make sure Sourcing Warrior's programs are the best-in-class. Otherwise, I will refuse to offer them to the world because my name is Yuping Wang.

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