

**Title: "Avoiding Middlemen- what most China sourcing agents, trading companies and brokers don't want you to know!"**

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Turn over just about any product these days and you are likely to find the "Made in China" label. While it is easy to find "a supplier" in China, the point of this article is to help buyers avoid middlemen and go factory direct.

To test my theory that the vast majority of vendors encountered by buyers are actually just middlemen, I recently attended a trade show in Mainland China where I stood in the main hall, held up a sample of a complex product and said in English "can anybody here make this item". In the blink of an eye I had 15 interested parties. All claimed "mei wenti" ("no problem") and boasted of their factory direct connections and great pricing. If only it was this simple to find a supplier.

After interviewing all of them, it became obvious that these were people (both western and Chinese) with only loose connections and no industry experience. They were essentially just middlemen. One was even a cab driver who carried the brochures of factories in the area and claimed to be a factory representative to any buyer that got in his car. Today, the amount of money involved in the China Sourcing game is so large that just about anybody will offer to be your source in hopes of making a quick buck. BUYER BEWARE.

### **Definition of Middleman**

For the sake of this article, a middleman is an intermediary who provides little value in the supply chain, perhaps only playing match maker but building in a margin. On the surface, in order to have more perceived value, they may claim an intimate relationship with the factory, but if they don't allow you to communicate directly with the factory, then you are dealing with a middleman.

If the intermediary is providing legitimate value (for example logistics, project management or quality inspection) then perhaps there is a place for them in the supply chain. But if the intermediary is not transparent in where their margin lies, then most likely the actual value for their inspection or project management service has been greatly inflated. Before you sign up with an intermediary simply ask that they separate the costs for their "service" from the "production costs". If they fight this, then you know their actual value to you is minimal.

### **Why go factory direct?**

There are four reasons why the western buyer should avoid middlemen as much as possible.

**1. Costs:** Extra layers increase costs

**2. Quality:** If the middleman makes his margin by adding a mark up to the product, then he has an incentive to steer the buyer towards the supplier where he can add the biggest margin which is often his cheapest and lowest quality option. The middleman's interest is not aligned with the buyer's interest to find the best price/quality ratio.

**3. Security of IPR (intellectual property rights):** If the middleman does not disclose the actual location of production, then the buyer has no way of knowing who has access to sensitive design and branding. The use of middlemen is the #1 reason knock offs are so prevalent in China, as too many buyers have no idea who is actually making their product. If you don't know who is making it, you can't control your IPR. Furthermore, unlike a factory, which has laborers, equipment and actual facilities, middlemen have few physical assets and can disappear into the Zhejiang or Dongguan mist when there is a problem such as a lawsuit about IPR infringement or quality recall.

**4. Communications:** To avoid the buyer cutting the middleman out of the loop, the middleman will do all he can to keep the buyer from knowing the identity of the actual manufacturer. This extra layer increases communication lead times and prevents the buyer from talking direct to the people who have the most knowledge about the product- the engineers on the production line. This muddled line of communication is particularly troublesome when technical problems arise in production and the factory engineering team and the buyer must communicate via a middleman who may not have the technical understanding to explain issues properly.

### How to Spot a Middleman

Assume all potential suppliers are middlemen until proven otherwise! The most common spin you will hear from the western middlemen is that "they leverage their overall buying power to help you get the best price with the factories they have pre-qualified." 99% of the time this is not true and is simply a slick sales message to make the buyer feel safe and keep you at arms length from the factory. Chinese middlemen may even say that they "own the factory", but when it comes to factory visits you hear excuses like "the power is off" or "let's just meet at our HK sales office" in hopes you never get to see the production base. If the middlemen above simply stated they were outside sales agents it would at least be ethical, but of course then the buyer would know they are not the actual factory. Here is a check list:

- ✓ Avoid factories that refuse to list the name or location of the production facility.
- ✓ Focus on those factories that can clearly show production experience with your particular product or production method. They should have samples and quality documents readily available if they are a real factory.
- ✓ If you are able to arrange a factory visit:
  - a) Do your contact's business cards match the factory staff's information? If the cards don't match in name, color and address, then your contact is probably a middleman.
  - b) Do the people at the factory clearly know your contact or does he give out business cards to factory staff when giving you the tour of "his factory"? At

worst case this may be his first time working with the factory and you may as well build your own relationship without him.

- ✓ Be aware that polished English skills do not reflect production skills. Often the most polished websites are set up by trading companies.
- ✓ Look for clear information about operation size, equipment and staffing.
- ✓ Be wary if they supply a very large range of products.
- ✓ Ask for ownership papers of the factory. Be explicit that the production location may be audited by you in person and that this location can not be changed without approval from buyer. (You would be surprised at the number of middlemen who will take the buyer on a visit of a factory only to change the location to a less expensive and poor quality option after the buyer leaves)

### **The Good News**

China has a massive production base, and in most cases there is no need to use a middleman as there is a factory out there with just the right mix of price, quality, service and lead time for your particular sourcing program. It is my strong belief that the vast majority of China sourcing middlemen provide little or no value to your supply chain.

### **Introduction to the author**

For the past decade Mike Bellamy has been based full-time in Asia. Fed up with the inability of middlemen/ trading companies to control quality and tired of having intellectual property (IP) knocked off, he decided to do something about it by forming PassageMaker in 2002. Mike developed a system to extract the best pricing in China and protect IP without compromising quality and service. PassageMaker's 100% US owned and operated Assembly Center in S. China serves as the client's "black box" where inspection, final assembly and branding takes place behind closed doors. In this fashion, Intellectual Property is physically secured and full quality inspection is conducted before product leaves China. Mike has structured sourcing investments in over 150 production classifications for US and European clients during his time in China. He has an International MBA from the University of South Carolina, which included course work in Harbin and Beijing.

Recognized as expert on China sourcing, Mike is has been a featured presenter for Global Sources Asia Expo HK, Global Sources Dubai, Boat Tech China, Rotary Foundation, US Chamber of Commerce, British Chamber of Commerce and State Bar of California among others. A former Rotary Foundation Ambassadorial Scholar, Mike speaks Chinese and Japanese. Based full time in Shenzhen China.

**Learn more about Mike and PassageMaker at [www.PSSchina.com](http://www.PSSchina.com). This website includes free educational material such as sourcing seminar videos and tools of the trade.**