

# Creating Supplier Relationships that last in China



Brian Robinson

# Who Am I ?

- STIHL Inc. – Purchasing Manager
- Rolls-Royce Aerospace – Head of Global Strategic Sourcing
  - Strategic Process Improvement
  - Supplier Relationship Management
- MasterBrand Cabinets – V.P. Purchasing
- Sourced approximately 15,000 containers of product from Asia
  - The vast majority from China

# Let's see if this presentation may be useful to you.

- Approaches to doing business in China
  - Directly
  - Via Agents
  - Indirectly
- Who in the room can translate the following for me:

*Yīngguó rén suǒ huà fēng la!*

# Concerns and risks with doing business in China

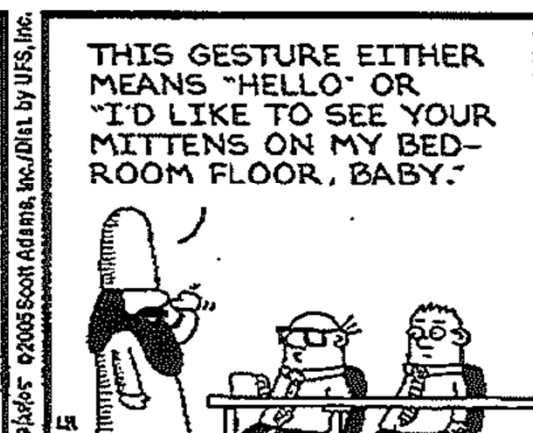
- Concerns of quality
- Security of intellectual property
- The legal system
- Accounting
- Containers held by customs
- Changing socio-economic landscape
  - New labor laws
- Movement in the currency/tax rebates
- How the Chinese approach business

# Purchasing Magazine – Around the world in 5 (not so) easy steps

- Purchasing magazine listed 5 key points for doing business in low cost countries:
  - Plan on educating suppliers
  - Watch for hidden costs
  - Be flexible in your negotiations
  - Dual source everything
  - Check the logistics infrastructure

# DILBERT

BY SCOTT ADAMS



©2005 Scott Adams, Inc./Dial by UFS, Inc.

Labour Day (Australia—WA)

**monday**  
**MARCH**

**B**

( 6 )

# SRM and China Sourcing

- What this presentation doesn't contain:
  - *A definitive* guide to business protocol when doing business in China
  - Specific business strategies
  - A one size fits all approach

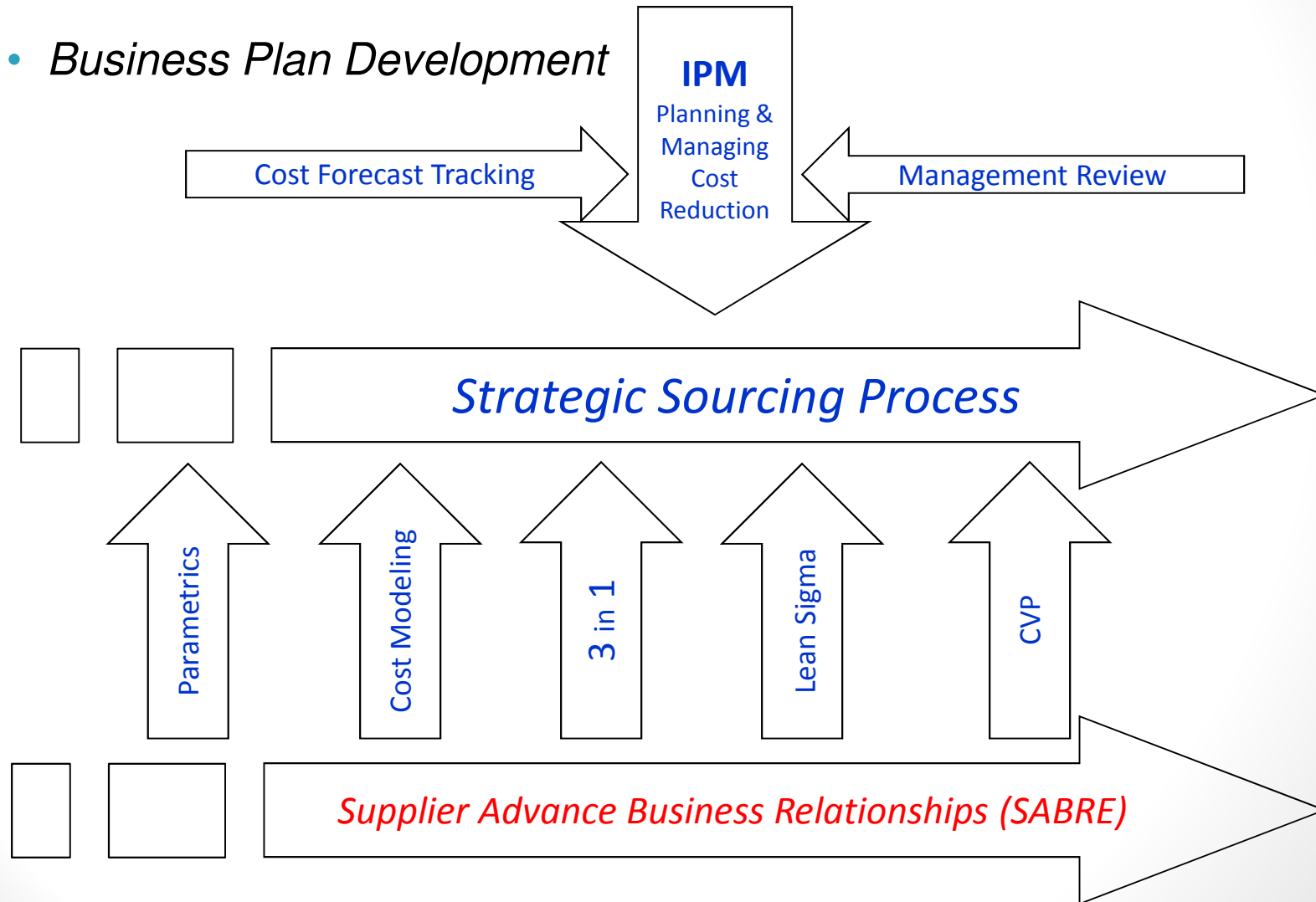
# The Value of Supplier Relationship Management

- My time with Rolls-Royce:
  - Initially focused on Strategic Sourcing
    - Cost reduction, initially very significant but started to create an adversarial supplier base
    - We realized that we were focusing too much on unit price and too little on SRM
    - Started a journey to establish SRM as a bedrock of the supply chain



# Rolls-Royce Supply Chain circa. 2003

- *Business Plan Development*



# The Value of Supplier Relationship Management

- Transforming Supplier Relationships (TSR)
  - One of Rolls-Royce's largest supply chain initiatives to date
    - Three years in development
- Featured in 'Inside Supply Management'

INSIDE **SUPPLY** MANAGEMENT



# Is SRM applicable in China?

- Hold your Chinese suppliers to the standard metrics:
  - Cost
  - Quality
  - Delivery
  - Responsiveness
  - Innovation, etc.
- *The critical point is not what you hold your suppliers accountable for .... It's how!*

# So what did I source from China?

- Semi finished wood products for kitchen cabinet industry
- Products which start life like this .....







.....and ended up like this



# Why is it important to learn the culture?

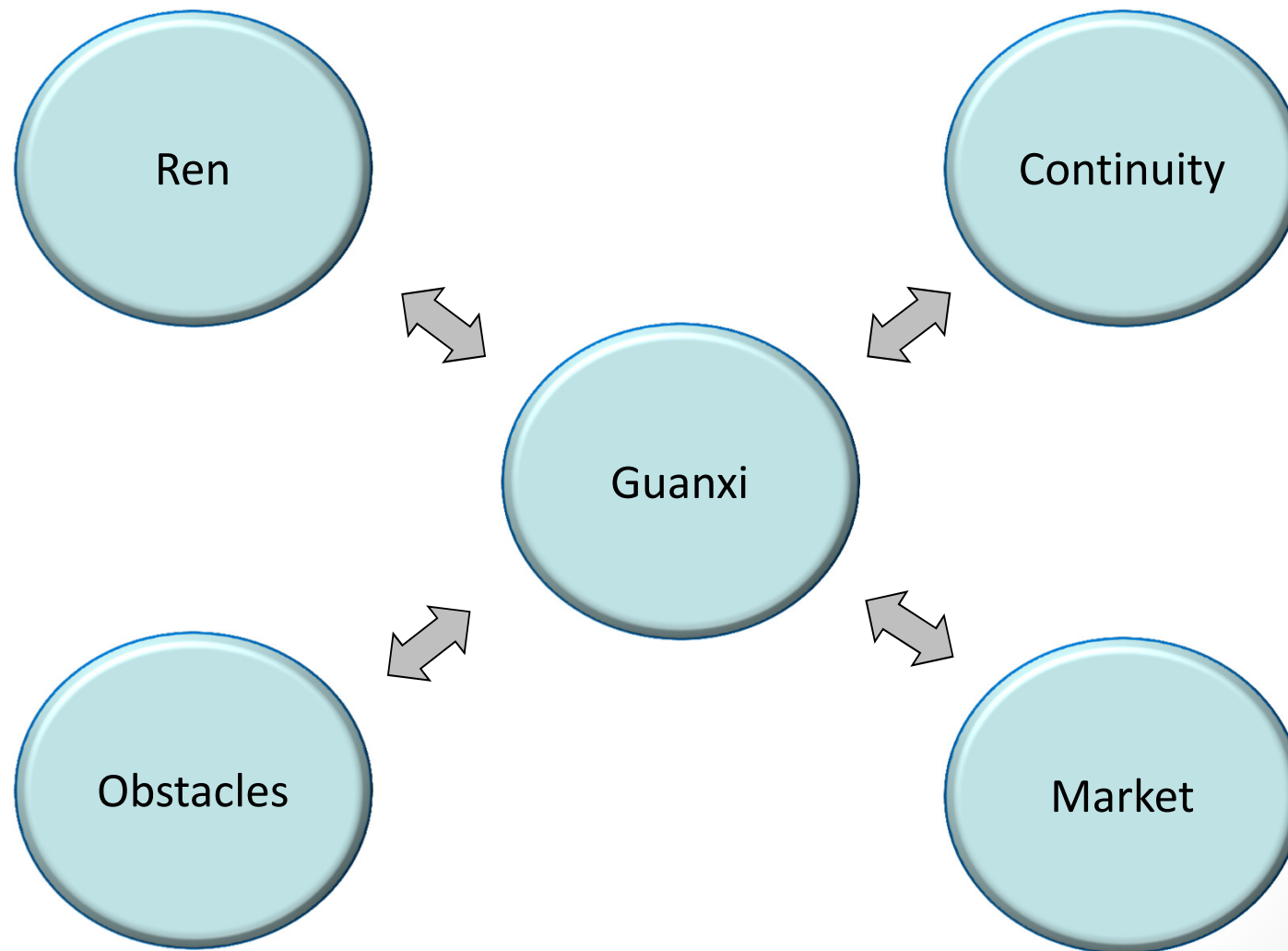
- By developing 'guanxi', you can outperform your competitors

A pretty bold statement?

- What's so different about Chinese culture?
  - Why do they think differently than 'The West'

Confucian =  
Confusing?

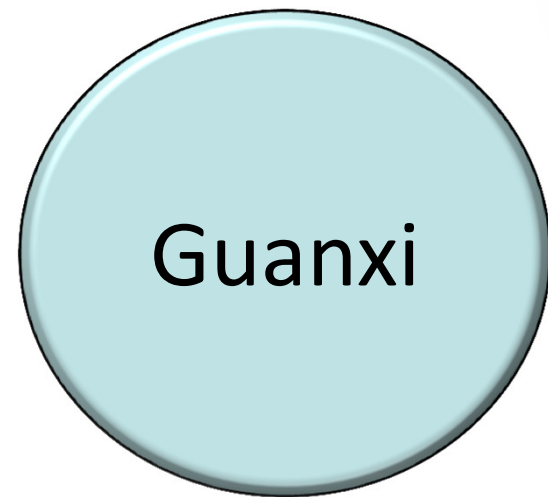
# Confucian – five Pillars





# Pillar One – ‘Guanxi’

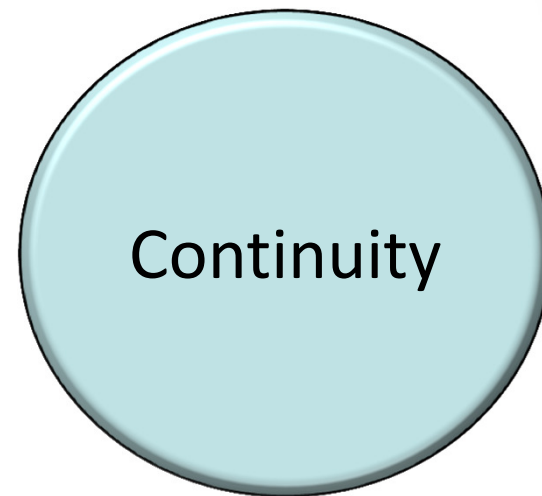
- ‘Guanxi’ is the most important concept when doing business in China
- A measure of your ‘social standing’
  - Your network of relationships
- Key to success



## Pillar Two – ‘Continuity’

- Chinese culture is deeply rooted in the past
  - A cycle of reoccurring history
- Be aware of Chinese history

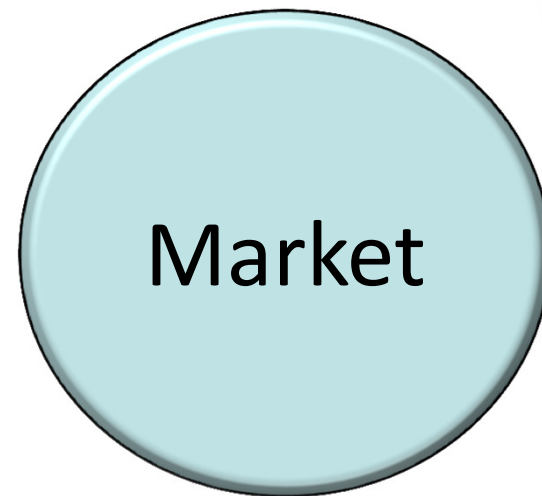
*‘What is done now must be in harmony with what has happened’.*



# Pillar Three— The Market

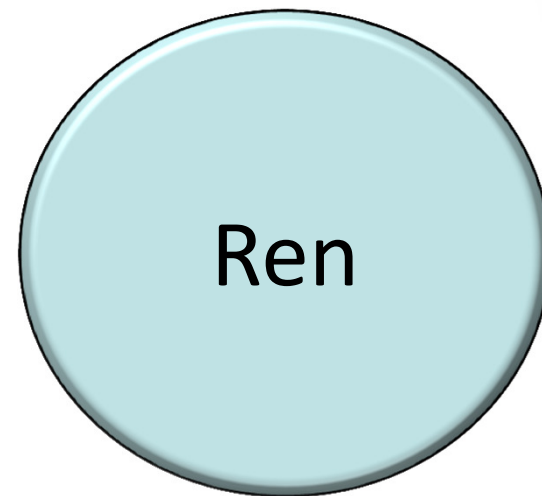
- Trading and bargaining are natural to the Chinese
  - Beware, you could be up against a tough negotiator
  - The Chinese will respect tough negotiation
- ‘What are you willing to pay’

“Caveat Emptor”



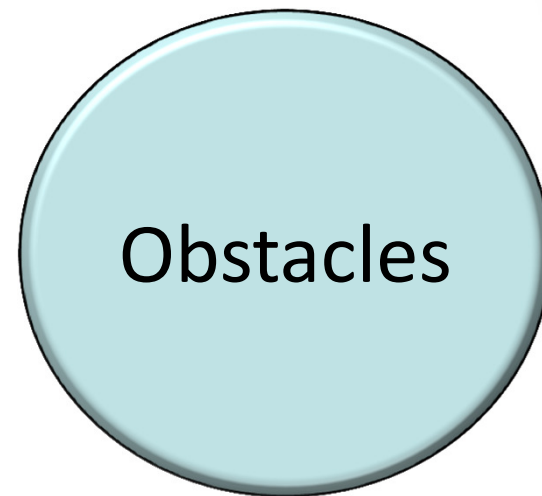
# Pillar Four– Ren

- The obligation of a leader for all of his/her subordinates
- The leader expects loyalty from his/her subordinates
  - Even obedience
- In return, the leader has many expectations placed upon them by the workers
  - Provide and care for his/her workers
    - Western entrepreneurship by the workers is not always welcomed as a good thing.



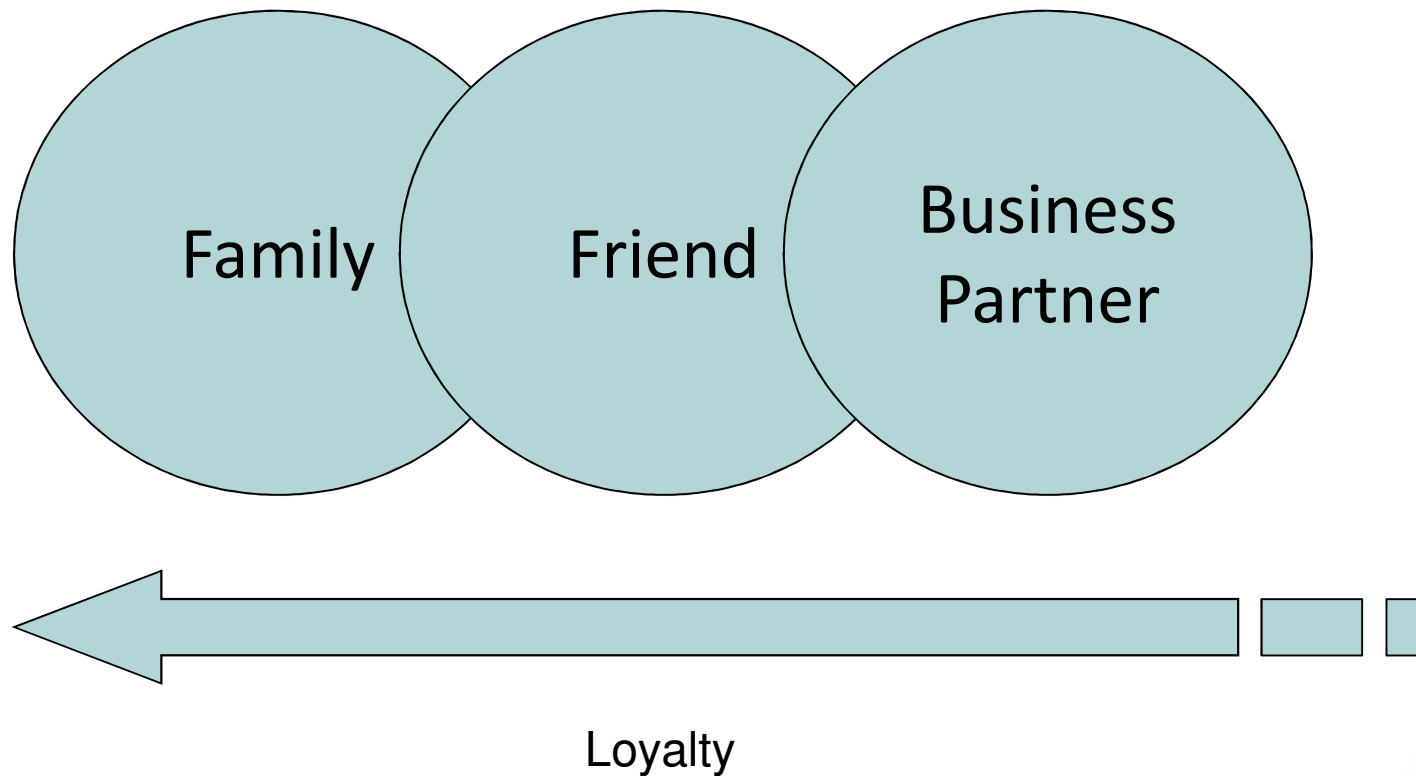
# Pillar Five – Obstacles

- China is a mix of many cultures, languages (historically), regions, etc.
- The Chinese government is trying to create one China
  - One official language, etc.
- BUT....Chinese are happy to be culturally diverse
  - To point out the differences between the different regions
- The Chinese themselves understand these cultural differences as 'obstacle'. So should we.

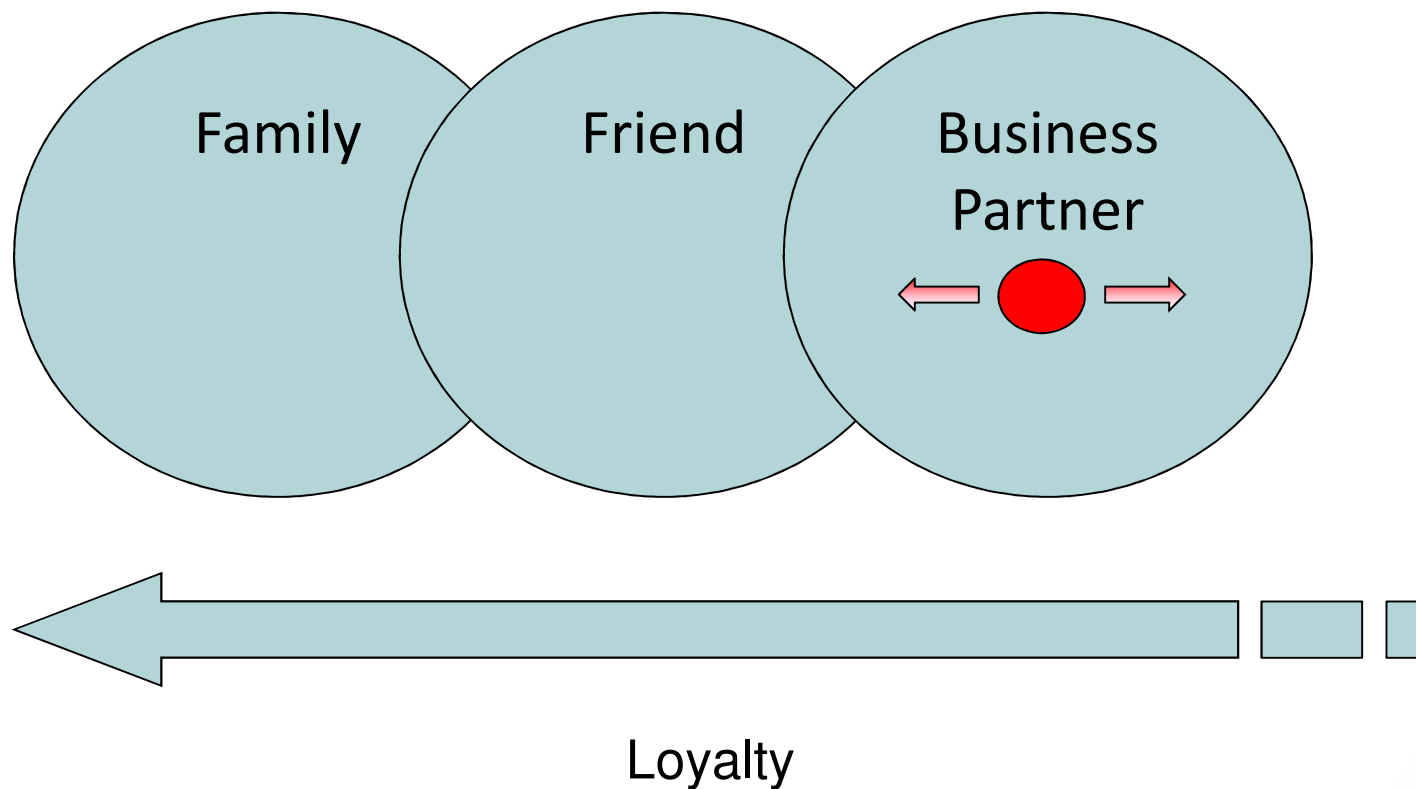


*So how does that all  
translate into something you  
can use?*

# How Chinese think about relationships



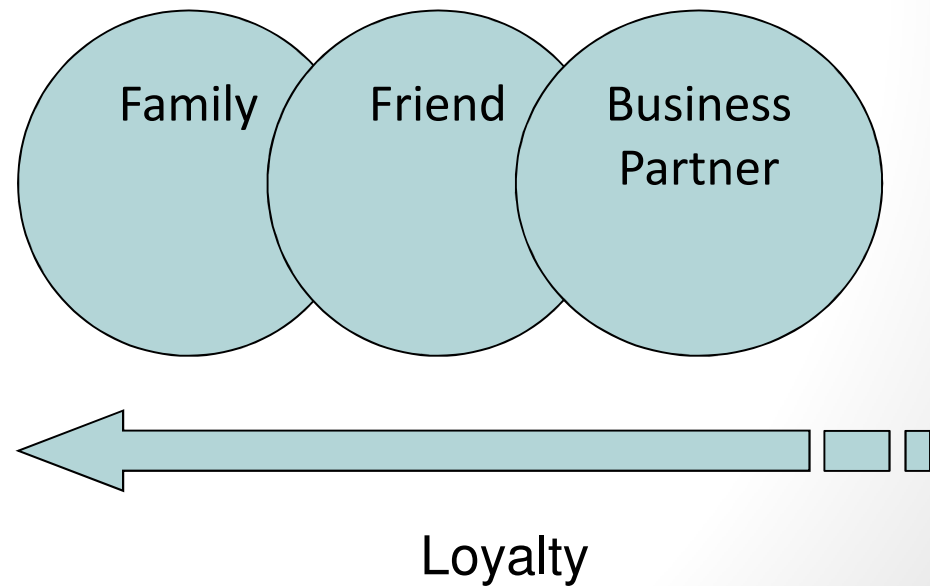
# Doing business the traditional 'Western' way



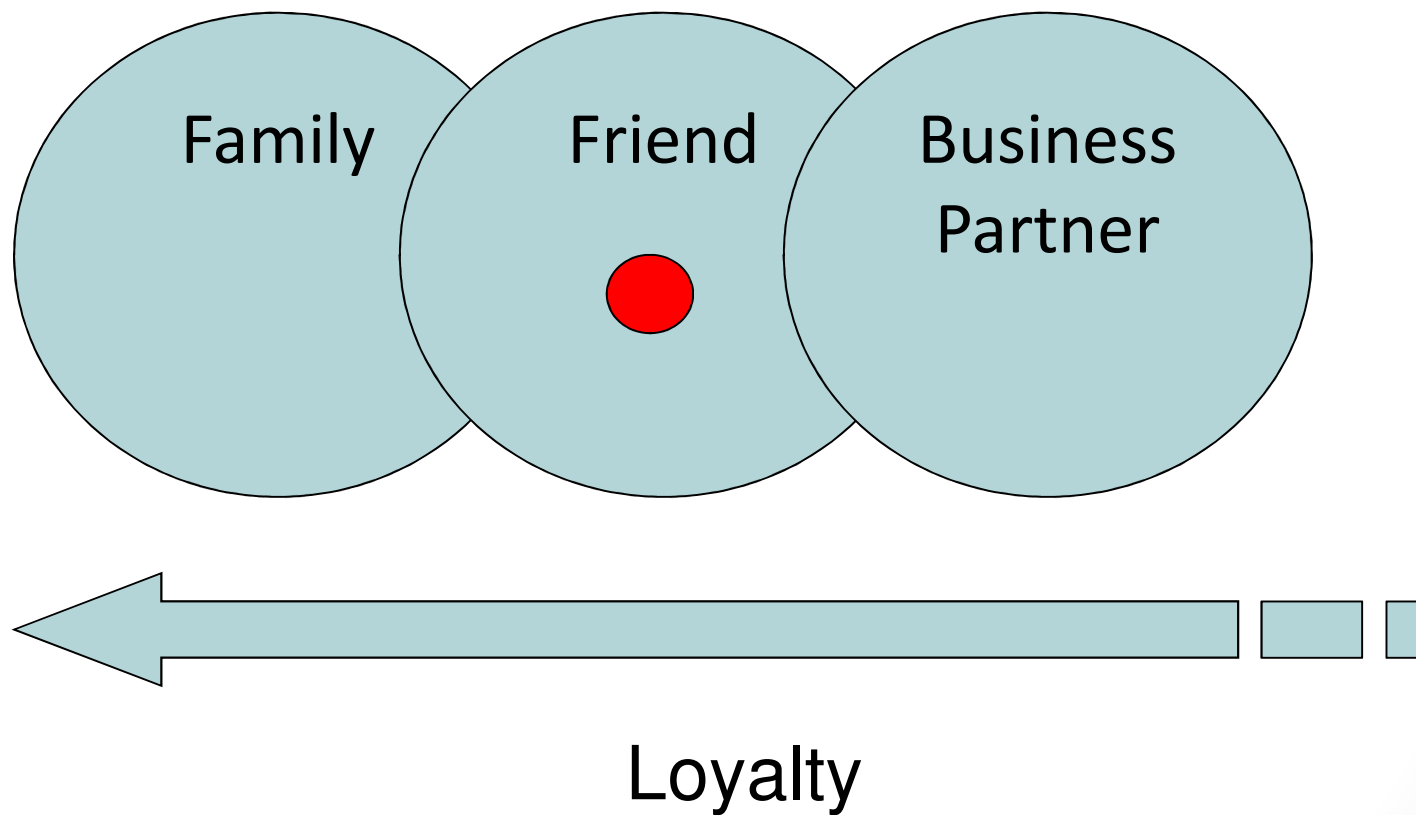


# The Drawback

- To the Chinese you are not developing any loyalty
  - They assume that you could stop doing business with them at any time
    - It does not matter if you have a formal contract
- You are not spending the time to develop a relationship
  - To become a long term partner
  - To develop trust and loyalty

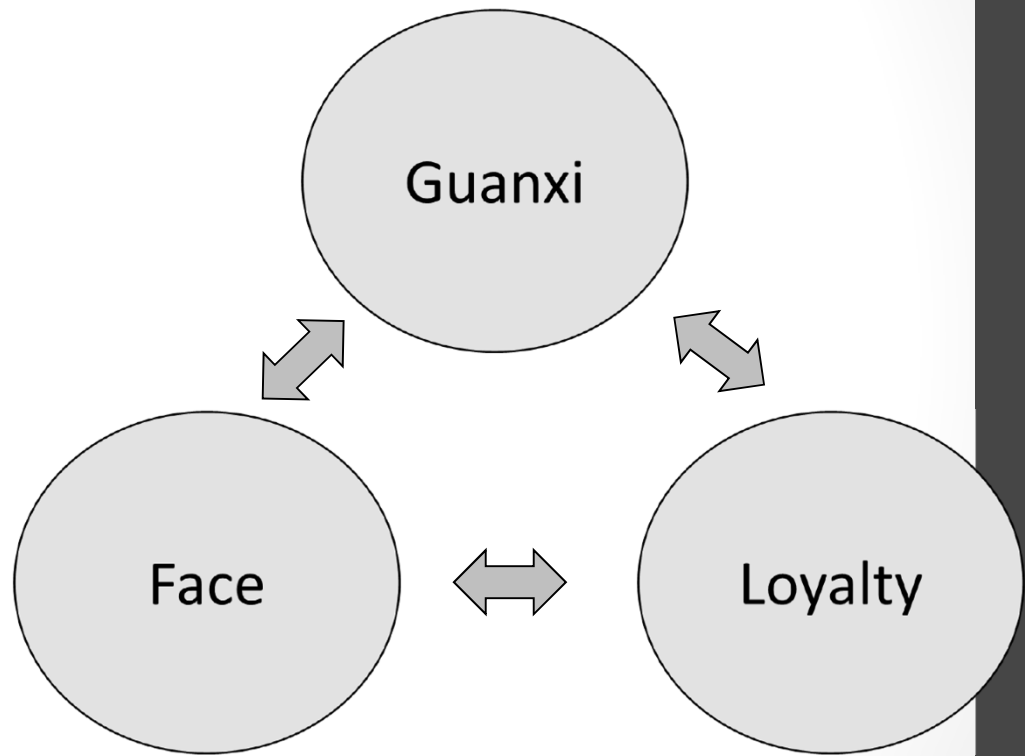


You need to work on building your relationship to become a trusted friend



# Are you compromising your integrity?

- No
  - Think of it as developing trust
  - If you are asked to do something unethical, you probably have the wrong business partner



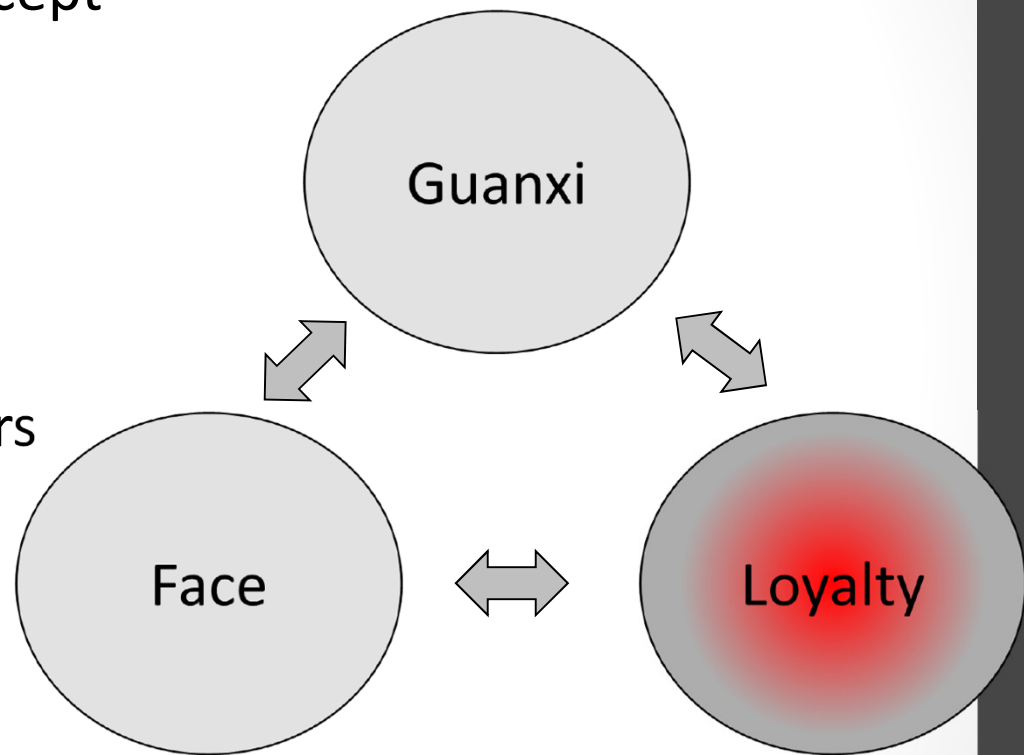
# Are you compromising your integrity?

- Loyalty is the same concept as in the western culture

- Prove you have integrity
- Demonstrate trust with your suppliers

- Work with your suppliers

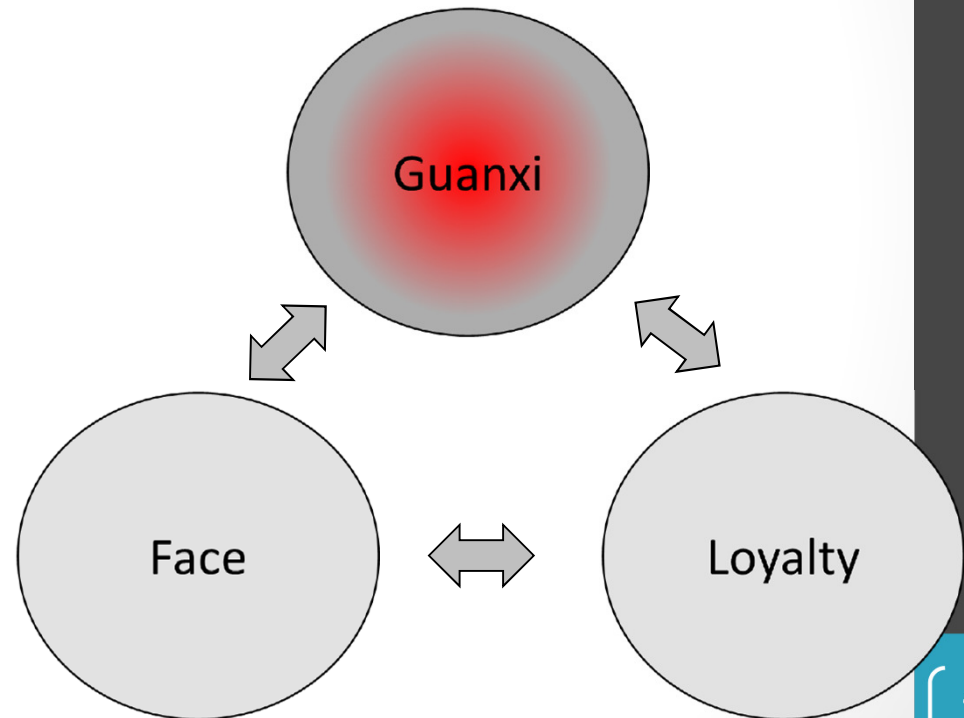
- Ensure they understand your specification(s)
- Provide assistance with quality issues
- 'Do what you say'
- Financially support them if prudent



# Guanxi

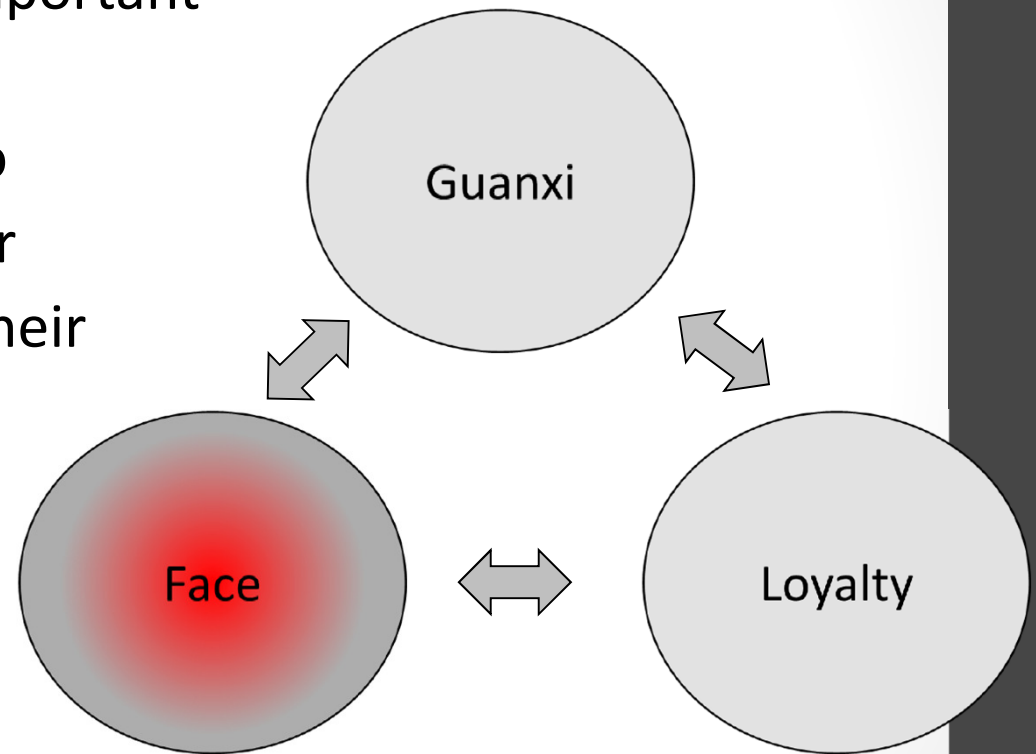
By proving you have loyalty to your supplier, you will be developing guanxi (social standing) within his network of relationships

- Networking in China is far more developed than in the West
- Information about your guanxi will get passed along to subcontractors, suppliers and even competitors
- Strange, but usually true



# Face (Mianzi)

- Not losing face is very important in the Chinese culture
  - Do everything you can to avoid shaming your supplier
    - Especially in front of their subordinates
  - Try where appropriate to 'Give Face' (Trust)
- Allow your supplier to gain self-esteem



# The end result.....

- Here are some of the benefits I have over my competition:
- You become part of a network of connected business people.
  - Just like APICS?
- My 'Guanxi' means I am often approached by new suppliers for business opportunity
- My suppliers often ask my advice about ways to conduct business
- One of my suppliers built a dedicated factory just on the strength of my relationship
  - Long before we had a signed contract

# Conclusions about China

- China is proud of its heritage and traditions
  - Take time to learn the social graces
  - Demonstrate integrity and trust
  - Give your host 'face'

*'Give yourself face' and start on the path to Guanxi*



Questions?