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DIGEST

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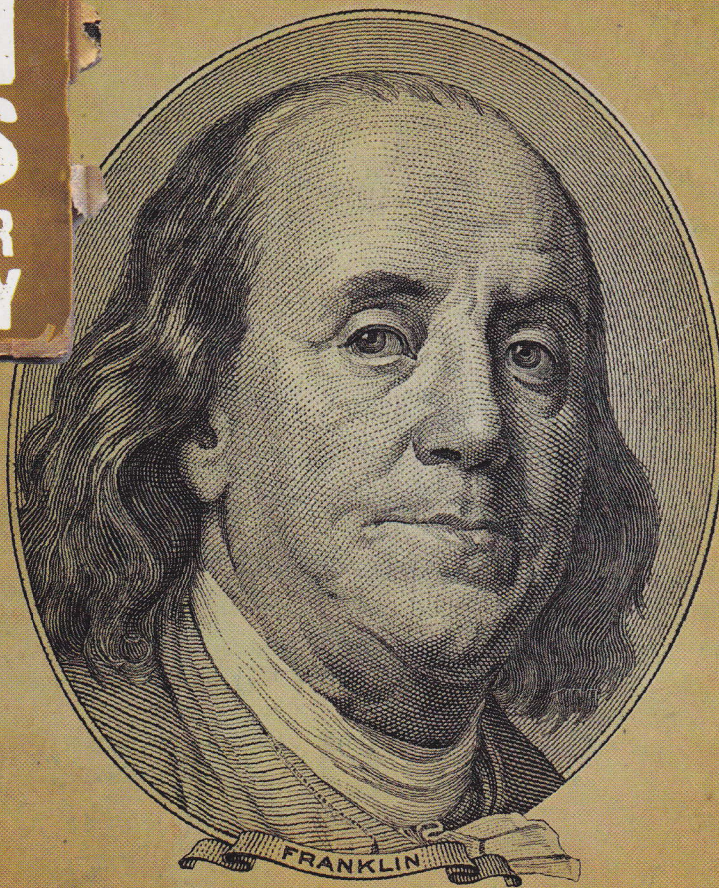
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10 STEPS ON THE ROAD TO OFFSHORING

BY EDIE TOLCHIN

Thinking about having your product made overseas? There's a lot to consider. Here's what you need to know.

I have worked with China factories for the past 20 years. Although times have changed and costs have risen, I still find China to be the most economical country for producing consumer products.

So, what's the best way to begin the sourcing and manufacturing process?

1 Hire a PROFESSIONAL, if possible, for first production run and check factory references...

An experienced sourcing consultant will review your product and have a list of factories to send your prototype to. A sourcing consultant is like a matchmaker between your invention and your overseas supplier. Your consultant can check the background and experience of the factories you'll be working with. Seasoned inventors also can provide referrals to trustworthy factories. Another good source: Certified professional members of the United Inventors Association (www.uiausa.org).

2 Prototype, Product Design Evaluation, CPSIA, Safety issues...

Take your best prototype and send it, along with product specifications and sales literature to a Consumer Product Safety Commission accredited safety lab. Request a product

design evaluation. Although this can be costly, it will save you time and money in the long run. The evaluation will help you comply with the Consumer Product Safety Improvement Act (*Better Safe than Sorry*, February 2009).

3 Translate key issues...

Take the list of federal regulations and production tests from your design evaluation and have them translated into the language of the overseas factory you'll be working with. Rather than going with a large (read: expensive) translation agency or an Internet site (not always accurate), try contacting the foreign language department at a local university to see if any of the instructors do translations on the side.

4 Sourcing, counter-samples, price quotes...

After you have revised your prototype, prepare your parcels for the prospective factories. Your shipment should contain your prototype, specifications, desired components, packaging samples, desired purchase quantity, the name of the port to where your product will be shipped, a list of possible alternate materials (if applicable), and the translated document containing the list of federal regulations and production tests taken from your design evaluation. Send an e-mail to the prospective factories, advising them of the courier's shipment

tracking number so they know to expect it.

Within a week or two, the factories will begin to e-mail you with any questions they may have and will prepare a counter-sample of your product, when possible. If it's a product that requires molds or tooling, ask the factory to send you a sample of a similar stock item they have produced before so you can assess quality and workmanship. The factory will then give you a ballpark price quote. Understand that if there are any changes made to the prototype, packaging or counter-sample, the pricing may change.

5 Get a binding ruling to determine import duties...

Most imported products carry import duties. If you are using a sourcing consultant, have her/him prepare a binding ruling request with U.S. Customs and Border Protection. The consultant will need as much information about your product as you can furnish, including a prototype or sample, product literature, alternate materials and so forth. Within 30 days after receipt, Customs will review your product, classify it and determine the percentage of import duties your imported product will carry. It's important to know this so there are no surprises when your shipment arrives at a U.S. port and passes through Customs clearance. For example, a shipment with the value of \$10,000 that carries a 4

percent duty rate will require payment of \$400 for import duties.

6 Negotiation of pricing, shipping terms...

When discussing pricing with the overseas factory, understand the various pricing/shipping terms. Most pricing is quoted either freight on board or FOB point of origin (FOB factory, FOB foreign port, etc.) or cost insurance freight or CIF port of destination (usually a U.S. port city, such as New York, Long Beach, Chicago, etc.). FOB and CIF are part of "Incoterms 2000," which is a guide of the 13 most commonly, universally used shipping terms.

For example, "U.S. \$5.75 per piece, FOB Shanghai, China" means your factory would be quoting you a unit price for your product, delivered to the port of Shanghai. From Shanghai, you would be responsible for the ocean freight to the U.S. port, marine insurance, customs clearance, and delivery to your inland destination.

Another example: "U.S. \$8 per piece, CIF Miami, FL," means the price will include the first unit cost, marine insurance, and ocean freight, prepaid by your vendor, typically up to the port of arrival, in this case, Miami. You would then be responsible for the customs clearance charges at the port, and freight (usually local trucking) from the port to your inland delivery destination.

See www.iccwbo.org/incoterms/id3040/index.html



7 Purchase Order Contract, Payment terms...

Once pricing and shipping terms have been ironed out, you are ready to draw up a purchase order. The PO should include buyer/seller names and addresses, phone/fax numbers, e-mail addresses, quantities, unit pricing and shipping terms, mold/tooling charges if applicable, method of shipment (whether via ocean or air), and a list of production testing – preferably with an attachment of these tests translated into the language the factory speaks. Provide all specifications, product description, components, anticipated delivery schedule, Customs information, labeling and packaging information, carton marks, and international shipping documentation requirements, as well as the U.S. customs broker information.

The most important item to incorporate into your PO is a stipulation for defective merchandise. Under a “comments” or “remarks” column in the POs I issue, I write, “Seller (name) is responsible for defective merchandise. Seller will be responsible for the entire cost of merchandise, freight charges for return of defective items, to be returned to the seller, in addition to replacement of the defective merchandise OR refund of buyer’s payment (in U.S. dollars, at the option of the buyer, via wire transfer.)”

You should also include payment terms. The most widely used form of payment for international orders is a wire transfer. Typically a 30

percent down payment is sent via wire transfer from your bank, to the factory’s overseas bank, so the factory can begin to purchase the raw materials for your order.

The more information you include in your PO, the better. Less is NOT more in the case of a PO with an overseas factory. You never want to be in a position after your order is delivered to have to contact the factory about a problem, only to have them say, “You never included that information in your PO.”

8 Pre-production samples, Production Testing...

Your PO should also include the number of pre-production samples (PPS) your factory will provide. You need to thoroughly review these samples to make sure the quality meets with your satisfaction. At this stage, typically, a pre-production sample is sent to the CPSC-accredited safety lab for production testing. You, the buyer, are usually responsible for the costs of the initial production testing. If the PPS passes the tests, then the factory can proceed with mass-production, and will later provide you with your mass-production samples so you can review for consistency in quality throughout the process. If the PPS does not pass the production tests, then usually the factory will be responsible for revising the product samples to make sure they pass a retest.

9 Final Shipment Inspections...

Once your order has passed all production testing and mass-production is complete, the factory will advise you that it is ready to ship. It should send you photos of shipping marks for your cartons – proper carton marking is a must for import compliance.

Rather than rely on the factory’s final shipment inspection, hire an independent agency. It typically costs \$300 and it’s worth every penny. I normally work with a company called KRT Audit Corp. (www.chinainspect.com), with offices throughout Asia.

At this stage you also would prepare what’s called final shipment inspection criteria. This guides inspectors as to what they should look for. Basically, you should include packaging, functionality and appearance issues, send photos of proper samples vs. quality control issues, along with a copy of your original purchase order with the factory. Within a few days, you should have a thorough inspection report, which will include photos of the final shipment.

10 Shipping, Customs Clearance...

If your factory is shipping to you on a CIF port basis, it will arrange to deliver the order to the shipping company at the port of departure. It will prepay the ocean freight and marine insurance, and prepare shipping documentation for your review.

If you lack experience in the various requirements for shipping documentation such as the commercial invoice, packing list, certificate of origin or bill of lading, you can ask your sourcing consultant or U.S. customs broker to check them to make sure all information is in accordance with the terms of your purchase order.

Once you have a copy of the shipping document (bill of lading or shipping manifest), you can wire transfer the balance due on your order – typically 70 percent – from your bank to the overseas factory’s bank.

If the factory is shipping on an FOB (overseas) port basis, and you must arrange the freight on your own, work with your freight forwarder in that country to make arrangements with the shipping company to book a space for your order, and apply for marine insurance on your behalf.

Ask your U.S. customs broker to give you the name of an agency she or he works with in the departure port city. Once the freight arrives in the United States, your customs broker can clear your shipment through Customs, prepay any import duties, and arrange trucking from the port to your inland delivery destination.

Make sure, along with sending the shipping documentation to the customs broker, you also send a copy of the binding ruling classification to present to Customs so there are no duty surprises. The U.S. customs broker will send you a bill for these services. ■