

The Road to Offshore Manufacturing: Part 1

Cracking the
System







You have decided to manufacture on your own. Whether you have exhausted all possibilities of trying to manufacture domestically and found it cost-prohibitive, have attempted licensing, or have found out that in order to get your invention on those home-shopping channels you need to provide them with product, you are ready to begin the sourcing, manufacturing and importing process.

I have worked with China factories for the past 25+ years, and even though times have changed and costs have risen around the world, I still find China to be the most economical country of choice for many consumer products, and certainly for the items I work with, such as textiles, sewn items, fashion accessories, baby products, arts & crafts items, and household inventions.

So, what's the best way to begin the sourcing and manufacturing process? Below is an outline you will find helpful.

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 which to send your prototype. A sourcing consultant is like a matchmaker between your invention and your overseas supplier. It's the most efficient way to go for first sourcing projects, until you have the experience in navigating the seas of international production. Your consultant can check the background and experience of the factories you'll be working with. Although I always recommend a sourcing advisor for your first project, you may also ask for help from fellow inventors who have imported before, to provide you with factory contacts if you feel confident enough and know the correct questions to ask.

2) Prototype / Product Design Evaluation / CPSIA / Safety issues...

Take your best, most 'perfect' prototype and send it, along with product specifications, sales literature, and so on, 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 Product Design Evaluation done properly by an accredited lab will cover all issues of the Consumer Product Safety Improvement Act (<http://cpsc.gov/about/cpsia/cpsia.html>), will make any recommended design modifications that only a trained eye can determine, will provide you with a list of production tests and federal regulations to be addressed, which will assist you in preparation of the General Conformity Certificates and tracking labels. A Product Design Evaluation (DE) is like a Sourcing Bible.

3) Translate key issues...

Take the list of federal regulations and production tests from your Product Design Evaluation (DE) 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 even an internet site (which may not always properly translate specific technical details), try contacting the Foreign Language department at a local university, and see if any of the instructors do translations on the side.

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

After you have made revisions to your prototype, based on your DE, prepare your parcels for the prospective factories. Your parcel 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 DE. 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 – but understand that if there are any changes made to the prototype, packaging or counter-sample, the pricing may change. (See #6 below regarding price negotiations).

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

Most products, when imported into the USA, carry import duties. If you are employing a sourcing consultant, have her/him prepare a Binding Ruling request with U.S. Customs and Border Protection (www.cbp.gov). He/she will take your prototype (or counter-sample), along with product literature, alternate materials, etc.—as much information about your product as you can furnish—and send it on for a



Binding Ruling request. 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 the USA port and passes through Customs clearance. For example, a shipment with the value of US\$10,000 that carries a 4% duty rate, will require payment of US\$400 for import duties.

6) Negotiation of pricing, shipping terms...

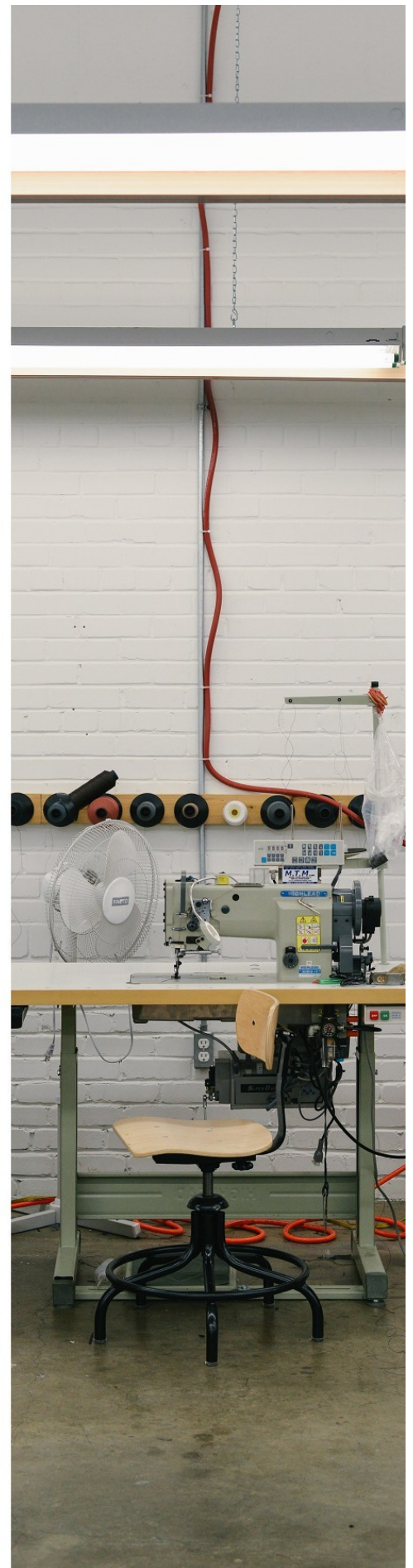
When discussing pricing with the overseas factory, it's important to understand the various pricing / shipping terms. Most pricing is quoted either FOB point of origin (FOB factory, FOB foreign port, etc.) or CIF port of destination (usually a U.S.A. port city, such as New York, Long Beach, Chicago, etc.). FOB and CIF are part of "Incoterms 2010," which is a guide of the 13 most commonly, universally used shipping terms.

(See <http://www.iccwbo.org/incoterms/id3040/index.html>). For example, with "US\$5.75 per piece, FOB Shanghai, China" shipping terms, 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 costs to the U.S.A. port, marine insurance, customs clearance, delivery to your inland destination such as your warehouse, to your customer, etc. (FOB stands for "F"reight "O"n "B"oard). Another example is, "US\$8.00 per piece, CIF Miami, FL," which means the price quoted will include "C"ost (the first unit cost from the factory), "I"nsurance (marine insurance) and "F"reight (ocean freight, prepaid by the factory/vendor, typically up to the port of arrival in the USA—in this case, Miami, FL). You would then be responsible for the customs clearance charges at the port of Miami (in this example), and freight (usually local trucking) from the port to your inland delivery destination as mentioned above.

For critical items 7 through 10, please stay tuned for the next issue. Look for "The Road to Offshore Offshore Manufacturing...(Part II)

About the Writer:

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Author/editor of: *Secrets of Successful Inventing: From Concept to Commerce*
Contact: (EGT@egtglobaltrading.com) - 845-321-2362



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