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What you need to know before

OUTSOURCING PRODUCTION TO CHINA

How to win and avoid the headaches

A note from Jeremy

If you're reading this guide, there's a good chance you're considering offshore manufacturing.

Perhaps you've received a quote from a supplier overseas and the numbers look attractive. Perhaps margins are under pressure. Or perhaps your business is growing and you're beginning to wonder whether your current manufacturing model can support where you want to take the company over the next five or ten years.

Whatever the reason, I'd like to start with a simple observation.

In my experience, most business owners begin this conversation by focusing on the wrong thing. They focus on the cost of making the product.

Now don't get me wrong. Cost matters. If somebody can manufacture the same product to the same standard for significantly less money, that's obviously worth investigating.

But after helping businesses source products, build supply chains, and navigate offshore manufacturing for many years, I've learned that the biggest benefits of offshore manufacturing often have very little to do with the unit cost of the product itself.

Some of the best outcomes I've seen have come from businesses that preserved capital, improved cashflow, reduced overheads, increased production capacity, improved scalability and allowed management to focus on growing the business rather than managing production headaches.

That's why I encourage business owners to think about offshore manufacturing through a much wider lens.

The question isn't simply, "Can I make this product cheaper?"

The better question is, "What impact could this decision have on my business as a whole?"

Chapter 1:

The most expensive machine they never bought

A few years ago I was talking to the owner of a manufacturing business who was convinced he needed another machine.

Demand was growing and production capacity was becoming a problem. Existing equipment was running flat out and every forecast suggested additional capacity would soon be required.

The owner had already spoken to equipment suppliers and explored finance options. The decision seemed obvious. More demand required more capacity. More capacity required another machine.

At least that was the assumption.

During our discussions I asked a simple question: Why do you need the machine?

After digging deeper it became clear that several components were consuming a disproportionate amount of production time while contributing relatively little strategic value to the business.

Several months later those components were being produced by an offshore manufacturing partner. The machine was never purchased.

The business preserved hundreds of thousands of dollars in capital, freed up factory space, increased capacity and became easier to scale.

Interestingly, the biggest benefit wasn't the lower manufacturing cost. It was avoiding an investment that no longer needed to be made.

Many business owners evaluate offshore manufacturing as though it is simply a purchasing decision. In reality, it is often a business model decision.

Chapter 2:

Why most businesses start with the wrong question

The first question I usually hear is, "Can you make this cheaper?"

That's understandable. Cost is often the reason people start investigating offshore manufacturing.

But whenever somebody asks me that question, I usually ask another one in return.

"What are you actually trying to achieve?"

Sometimes the answer is better margins. Sometimes it's growth. Sometimes they've run out of factory space. Sometimes they're struggling to find skilled staff. Sometimes they're looking at a major machinery purchase and wondering whether there is a better option.

The reason I ask the question is simple:

The right manufacturing solution depends entirely on the problem you're trying to solve.

If all we're trying to do is reduce unit cost, we might make a very different decision than if we're trying to improve scalability, preserve capital or simplify operations.

Cost should be viewed as one factor in the decision, not the entire decision.

Chapter 3:

When offshore manufacturing makes sense

One of the most common questions I get asked is whether offshore manufacturing is right for a particular business.

The answer depends on the problem you're trying to solve.

If your business is growing faster than your production capacity, offshore manufacturing may provide access to equipment, labour, and capability that would otherwise take years and substantial investment to build locally.

If you're facing significant capital expenditure, offshore manufacturing may provide an alternative path to growth without tying up large amounts of cash in machinery and infrastructure.

If you're struggling to find skilled staff, it may reduce dependence on increasingly difficult labour markets.

And if your competitive advantage lies in product development, sales, marketing or customer relationships rather than manufacturing itself, it may allow you to focus resources where they create the most value.

The key is understanding what you're trying to achieve before deciding how you're going to achieve it.

Chapter 4:

When offshore manufacturing doesn't make sense

Offshore manufacturing is not always the right answer.

Products that require constant customisation, very short lead times, or highly variable specifications can often be better suited to local production.

Similarly, very low production volumes may not justify tooling costs, freight costs, or minimum order quantities.

Some businesses also begin investigating offshore manufacturing before the product has been fully developed. If specifications continue changing, production discussions are often premature. However, we can help you refine your designs and get you cost-effective sampling.

Offshore manufacturing is not a shortcut or a silver bullet. It is simply another tool available to help businesses achieve specific objectives.

Like any business decision, success depends on planning, execution and ongoing management.

Chapter 5:

The benefits most businesses never calculate

Most business owners are very good at calculating visible costs. They compare current manufacturing costs, proposed manufacturing costs, freight costs, and landed costs.

What they often fail to calculate are the broader business impacts.

Preserving capital is one example. Every dollar invested in machinery is a dollar that can't be invested in sales, marketing, product development, or growth.

Reducing overheads is another. Manufacturing involves far more than labour and materials. There's also management, maintenance, power, rent, insurance, compliance, recruitment, and training. We often make significant reductions in all these costs when they establish the right offshore supply chains.

Scalability is another often overlooked benefit.

Many businesses discover that offshore manufacturing gives them access to production capacity that would otherwise require years of investment to create.

These second-order benefits are often where the greatest value exists.

Chapter 6:

The hidden costs most businesses forget to calculate

Getting a supplier quote is only the beginning; you also need to consider freight, customs clearance, insurance, inventory carrying costs, quality inspections, travel, communication, management time, and currency fluctuations.

These costs don't necessarily make offshore manufacturing unattractive, but they do need to be understood.

The businesses that achieve the best outcomes evaluate the complete picture rather than focusing on a single number.

That is one of the reasons experience matters.

Decisions are better when they are based on reality rather than assumptions.

Chapter 7:

Why "going it alone" can be expensive

One of the biggest misconceptions about offshore manufacturing is that it simply involves finding a supplier online and placing an order.

Finding a supplier is usually the easy part.

Building a reliable supply chain is the hard part.

Supplier selection, product design, engineering refinement, sampling, production planning, quality control, logistics, and communication all play critical roles in success, and these things require more time, energy, infrastructure, and expertise than people first think.

The truth is you often need people on the ground to make sure it is all coming together.

Sadly, many businesses underestimate the complexity involved until problems begin appearing. This is often once they have sunk considerable time and money. Good supply chains don't happen accidentally. They are designed, managed, monitored, and continually improved.

Experience matters. Relationships matter. Oversight matters.

Chapter 8:

More than a broker

One thing we hear regularly is, "So you're basically a sourcing agent?"
The answer is no. We are a strategic business partner.

Finding a factory is often the easiest part of the process. The real challenge is building a manufacturing solution that supports the long-term objectives of the business.

That's why our process begins by understanding what the client is actually trying to achieve.

- Better margins?
- Improved scalability?
- Increased capacity?
- Preserved capital?
- Improved cashflow?
- or accelerated growth?

Only once we understand those objectives do we begin designing the right solution.

Linkeight offers far more value than sniffing out the right manufacturing partner. We use our established supplier networks, experienced personnel on the ground in China, product development expertise, sampling support, production planning systems, quality assurance processes and logistics coordination to build you a reliable, accurate supply chain that has minimal risk.

Most importantly, our clients gain a local New Zealand partner who understands both international manufacturing and local business realities.

That's where the real value lies.

"Linkeight's experience has been invaluable to us on a number of counts – and their work with the team to support innovation in design and delivery of componentry has enabled us to move more quickly than we could have anticipated."

– Stabicraft Procurement Manager.

Final thoughts:

Offshore manufacturing can absolutely reduce cost of goods sold, and in many cases that is what first attracts business owners to the idea

However, focusing exclusively on unit cost is often a mistake.

The most valuable benefits frequently come from improvements to the broader business model: better scalability, improved cashflow, reduced overheads, preserved capital, increased capacity, and reduced operational complexity.

The businesses that achieve the best outcomes evaluate offshore manufacturing through a strategic lens rather than a purely purchasing lens.

The question should not simply be, "How much cheaper can I make this product?"

The better question is, "How can this decision improve the performance of my entire business?"

That is where the real opportunity usually exists.

linkeight

HEAD OFFICE – NEW ZEALAND

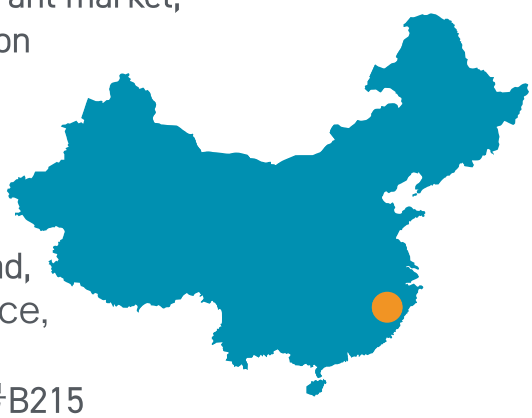
Kāpiti Coast, Wellington New Zealand
Strategically located on the Kāpiti Coast, Linkeight's warehouse provides overnight distribution to New Zealand's main centres.

P. +64 21 599 606
E. admin@linkeight.co.nz

A. 21 Birmingham Street,
Paraparaumu Beach, 5032,
New Zealand

CHINA OFFICE

Yiwu City, Zhejiang Province, China
Yiwu is one of the largest trading hubs in China. Home to the Futian Markets. The city is famous for its small commodity trade, vibrant market, and as a regional tourist destination



P. +86-150 5867 5006
电 话. 15058675006
E. admin@linkeight.co.nz

A. B215 No.272 Xuefeng West Road,
Yiwu City, Zhejiang Province,
China 322000
浙江省义乌市雪峰西路272号B215

www.linkeight.co.nz