

Ville Hulkko

**Sourcing guide to small- and medium enterprises: Case Alibaba**

A guide to Finnish-Chinese collaboration & sourcing via Alibaba.com -portal

## **SOURCING GUIDE TO SMALL- AND MEDIUM ENTERPRISES: CASE ALIBABA**

A guide to Finnish-Chinese collaboration & sourcing via Alibaba.com -portal

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Oulun ammattikorkeakoulu

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Sourcing-opas pienille- & keskisuurille yrityksille kehitettiin työkaluksi osana Raknar Oy:n idän-kaupan hankintatoimia. Työn tavoite on tunnistaa eroavia avaintekijöitä Suomen & Kiinan kauppakulttuurien välillä, ja tarjota käytännön toimintamalleja hankinnan & liikesuhteiden rakentamisen tehostamiseksi. Viitekehystenä tutkimuksessa käytettiin Alibaba.com –portaalia, syksyllä 2014 Yhdysvalloissa ennätysuureen pörssilistaukseen yltänyttä idän-kaupan välittäjäpalvelua (NYSE: BABA).

Tutkimus tarjosi holistisen, pintapuoleisen katsauksen Kiinan-kaupan erityispiirteisiin, trendeihin sekä kulttuurillisiin eroavaisuuksiin, sekä tunnisti toimintamallit logistiikan, maahantuonnin, riskien välttämisen, liikeneuvotteluiden sekä Alibaban optimaalisten hyödyntämismahdollisuuksien soveltamiseen PK-skaalassa.

Työn 3. kappaletta suositellaan luettavaksi kaikille PK-yritysten operatiivisessa johdossa toimiville, jotka suunnittelevat tai jo harjoittavat idän-kauppaa, Kiinan-kauppaa ja/tai mannertenvälistä hankintaa. Työn on tarkoitus olla ennen kaikkea yleistietoisuutta lisäävä, sekä omatoimiseen jatkotutkimukseen kannustava. Siksi työ kehoittaaakin lukijaa toimialakohtaisiin jatkotutkimuksiin, sekä yhteistyöhön idän-kaupan konsulttien kanssa.

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Asiasanat: Kiina, hankinta, tuonti, verkkoliiketoiminta, kulttuurienvälinen vuorovaikutus, kansainvälinen viestintä

## ABSTRACT

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A sourcing guide for small- and medium sized enterprises is a tool developed as a part of Raknar Oy's sourcing operations. The purpose of the research was to identify key differences between Finnish & Chinese trading cultures, and to offer practical methods of improving east-bound procurement practices, as well as improving intercultural business relationships. The focal point of the research was Alibaba.com, a trading intermediary –portal of Chinese origin that was listed in the Net York stock exchange in fall 2014 with a record-breaking Initial Public Offering (NYSE: BABA).

The research provided introductory, general-level analysis of unique features of Chinese trading practices, emerging trends and key cultural differences, while offering perspective also on logistics, importation, risk management, business negotiations and optimal use of Alibaba.com's tools.

The 3<sup>rd</sup>. chapter of the research is a recommended study for any SME-executive who is either planning or already operating in activities of China-based sourcing and/or intercontinental procurement. The work is intended to provide the reader with general introduction to first-time sourcing, Chinese trading, and to encourage further industry-specific research. Thus, critical reading, autonomous research and collaboration with eastern trade consults is highly recommended.

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Keywords: China, Asia, foreign trade, imports, e-commerce, intercultural communication

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# 1 INTRODUCTION

The purpose of this research is to bring shed light on what is known as Finnish-Chinese sourcing operations. Alibaba Group, a trading intermediary originating from China, has established a pivotal role in west-to-east consumer- and Small and Medium sized Enterprise (SME) level procurement operations, but is nevertheless still relatively unknown to the western SME field. With Alibaba's increasing visual presence in the West (Alibaba's Key Partnership with Slush 2014, stock listing of 9/2014), Alibaba is establishing itself as an invaluable asset of SME-level sourcing.

Small- and medium sized enterprises operate often under particularly limited resources, adding additional risk to intercontinental trading. The research was issued by Raknar Oy, an Oulu-based Start-up that has been dealing with Alibaba and international sourcing operations as a cornerstone of its core competency. To aid themselves and to prevent future Start-ups from repeating costly mistakes through ignorance, Raknar requested the creation of an entry-level guide to Asia-targeted sourcing, using Alibaba.com as a reference point.

The researcher, a founding member of Raknar Oy, has experience from a vast array of international business, from managing an international e-customer service team, to trade negotiations in Italy, China and Thailand. He has attended Oulu Business School (University of Oulu), and is now finishing his degree at the Oulu University of Applied Sciences, focusing on entrepreneurship.

The research aims to offer a robust information base of west-to-east procurement, increase awareness of Alibaba Group's services, and offer derived, personal interpretations on current trends of procurement within the rapidly changing field of markets of China.

## 1.1 GLOSSARY

**Small- and Medium sized enterprises (SMEs):** *The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million. (Lex Europa 2003)*

**Sourcing:** We base our definition of sourcing on the definition of Strategic Sourcing of the Chartered Institute of Procurement & Supply (CIPS): *“Satisfying business needs from markets via the proactive and planned analysis of supply markets and the selection of suppliers with the objective of delivering solutions to meet pre-determined and agreed business needs”* (68 Chartered Institute of Procurement & Supply;).

**Producer / seller:** For Chinese markets where producers are often local factories and alliances of craftsmen that focus on the production of a single element, raw material or process, organizations that focus on tasks of trading intermediaries or “trading matchmakers” have emerged. Thus, the implementation of the concept of Sourcing Hubs, as introduced by Agrawal, De Meyer and Van Wassenhove, can be considered essential when studying Chinese supply markets: *“The sourcing hub—a collaborative center involving the firm, its suppliers, and raw material suppliers—which can effectively capture and deploy the raw material sourcing knowledge for managing value in upstream sourcing”* (51 Agrawal, Anupam 2014;). For this case we assume that the procuring SME:s are looking for finished products to retail. Thus, when discussing “suppliers”, “sellers”, “producers” and “manufacturers”, the research generally refers to trading hubs that are capable of producing a complete, fully customized units ready for retail in the procurist’s country without further assembly or alteration at destination. We also refer to the producer as “manufacturer”, “supplier” and/or “seller”.

**Procurist:** In this specific research, we define “procurist” as a Finnish SME who acts as the buyer of the transaction. Procurist, in this case, has a need for a specific product manufacture, possesses the finished designs and specifications, and handles the sourcing itself without outsourcing the buying services to a 3<sup>rd</sup>. party product development / trading service. Also referred to as “buyer” and in some cases “importer”.

## 1.2 BORDERS OF RESEARCH & CAVEATS

This research will focus on the Business-to-business services provided by Alibaba.com. It will mention, but not specifically study, other more consumer-oriented services offered by Alibaba Group, such as Taobao.com, 1688.com or Juhuasuan.com. The research will focus on Alibaba.com, Aliexpress, Alisource Pro and Alipay, which are considered by the researcher to be the most relevant for Finnish companies dealing mainly in Finland / Scandinavia.

The research's point of view will focus on the sourcing of products of low product development need. We define this as any set of products that require low to none joint development with the supplier after the customer has delivered the product's specifications and/or plans/blueprints. Examples of such products are (but are not limited to) woodwork screws, t-shirts and smartphone cases. The results and recommendations of the research might not apply to products of high technology and/or complex structures: Caveat lector.

The research will also focus on the procurement of physical products and their supportive services, such as logistics and quality control. Purely immaterial services, however, such as consultancy, advertisement / graphic design services or programming / web hosting services are not covered by this research, and recommendations made by this work should not be applied without further research to their validity with services.

The research also does not cover the optimization of processes. It is assumed that the entrepreneurs using this research have the capability and knowhow to optimize their specific processes and know what they need. In other words, the research does not provide models for logistical optimization, competitive tendering, refinement of production processes and inventory management models.

The focus country of sourcing in this research will be China.

Furthermore, to protect the validity of the research from hypothetical sudden operation shifts of Alibaba (redesigning of sites, sudden strategy changes or force majeure), no Alibaba-related source published after 26.9.2014 will not be used. The date is chosen from the date of Alibaba's official IPO listing + 7 days, to observe the market reactions.

### 1.3 METHODOLOGY

Due to the emerging nature of Alibaba's business positioning within the western markets, there is very little written source material of academically authenticated credibility. Most of the post-stock listing data is speculative and/or not yet backed by trustworthy research. Thus, this research will focus on three types of sources:

1. Study of blogosphere & media articles of reputable sources

Blogs originate from Alibaba's dedicated forum as well as search engine hits. Media sources are filtered through their recognizability through the eyes of a business student. The selection process will focus on personal opinions instead of following a 3<sup>rd</sup>. party criteria.

2. Theories of sourcing

Proper references to theories of sourcing, procurement & overseas trade will be included when appropriate. The articles are primarily found through EBSCO & ProQuest databases.

3. Interview of sourcing professionals

Two interviews were conducted for the research. The first interviewee was Jinghui Lee, an entrepreneur of Chinese origin who runs a China-Finland import/export consultancy company, Nordic Node Oy. The second interviewee is Luai Mahjneh, an Oulu-based entrepreneur operating in clothing industry through Raknar Oy, who has experience of sourcing operations from China.

Furthermore, the author of this research, Ville Hulkko, has a professional background in foreign trade and has been involved in sourcing operations to China, Thailand and Italy. Some chapters of the research will be written without external references. The information presented this way is referenced by the author's own knowledge about the industry and its practices.

## 2 ALIBABA

*"The first business of Alibaba Group, Alibaba.com (www.alibaba.com) is the leading platform for global wholesale trade serving millions of buyers and suppliers around the world. Through Alibaba.com, small businesses can sell their products to companies in other countries. Sellers on Alibaba.com are typically manufacturers and distributors based in China and other manufacturing countries such as India, Pakistan, the United States and Japan." (Alibaba Group 2014a)*

Alibaba.com is considered to be the leading link of sourcing between Asian producers and European & U.S. wholesaler-, retailer- & refiner businesses. Alibaba.com acts as the most commonly used tool for first time-, and/or small scale sourcing needs of small and medium sized enterprises who might not yet have an established network of contacts within Asia's field of producers.

Alibaba.com focuses on wholesale partnerships and thus, generally the suppliers' Minimum Order Quantity > 1. Thus, consumer- & very small scale trading of individual components is commonly handled through Aliexpress & Taobao.com, Alibaba's online marketplaces for international & Chinese consumer groups.

Alibaba Group is the controlling umbrella corporation which offers solution for the fields Consumer-to-Consumer, Business-to-Consumer and Business-to-Business through its affiliated entities. These entities include, but are not limited to:

- www.alibaba.com Online wholesale platform (B2B)
- www.aliexpress.com Online retail platform for international customers (B2C)
- www.taobao.com Online intra-Chinese retailing platform for small scales (B/C2C)
- www.tmall.com Online intra-Chinese retailing platform that deals directly with known brands
- Alipay E-commercial payment platform without transaction fees (B/C2B)

(Alibaba Group 2014b)

(Investopedia 2014, accessed 30.10.2014)

On 19.9.2014 Alibaba Group released its Initial Public Offering through New York Stock Exchange (RIC: BABA.N). The IPO was considered particularly significant for its all-time high value, US\$21.8 billion, as well as the fact that it was listed for a company of Chinese origin (Investopedia 2014, accessed 30.10.2014). The company is commandeered by its founder Jack Ma, who currently holds position of Executive Chairman of Alibaba Group. Prior to the stock listing of September, Alibaba's major shareholders included:

- Softbank, 34.4%
- Yahoo, 22,6%
- Jack Ma, 8.9%

(Mishkin 2014, accessed 03.11.2014)

As Alibaba has not yet released its annual reports from 2014, the post-listing ownership status could not be verified.

## **2.1 STRUCTURAL STUDY OF ALIBABA.COM**

This study focuses on the point-of-view of procurement and thus we exclude seller-oriented pages from hereon out. Alibaba.com consists of a mother site that is divided into four categories:

1. Offered product categories & search
2. Tools for buyers
3. Tools for sellers
4. Support pages

Alibaba.com follows a simplistic site structure, favored by large-traffic website such Yahoo and Google (Vella 2007). The main site is freely browsable by any individual residing in a country with little internet traffic restriction. More specific operations, however, such as sourcing requests, contacting of suppliers and use of shopping carts, require for the browser to sign in to the service. Upon account creation, Alibaba.com collects basic information, such as login information, contact person name, company name, telephone and email address, which are all mandatory.

From the buyer's point of view, finding the right supplier partner is the primary goal of visiting Alibaba.com. This can be achieved through two main methods:

### **2.1.1 Search & engage**

Like most online stores and auction sites, Alibaba.com offers a variety of approaches for the buyer to find the product & seller he/she seeks. First is the keyword search method: a search bar is visible on every Alibaba.com page where a chosen keyword can be entered (Picture 1). Entering a keyword opens up a list of products & producers matching the tag searched. The buyer has then the possibility to explore the list and view each product-producer –combination in more detail by opening up their offering page. Advanced search options, such as choices of target group (supplier vs. product), category and country of origin, are also offered. The keyword approach is ideal for a buyer who has a clear idea in what he/she is searching for.

The second method is to systematically browse the site through a map of product categories (Picture 2). Clicking on the primary product category, such as Consumer Electronics, opens up a dedicated page of the said group, with sub-categories of varying amount and depth. The browsing

approach is ideal for a buyer who lacks clarity in what he/she is looking for, or is searching for bargains.

While searching for the desired product, regardless of the method used, Alibaba.com displays featured products at various secondary placements on the search pages.

### **2.1.1 Alisource Pro**

If the procurist is searching for a very specific product and is looking to explore between several different sellers, the procurist can deploy a quotations request to Alisource Pro –tool. After filling out general specifications the Alisource Pro filters the request and delivers it to potential suppliers, who in turn contact the procurist either directly via email / Skype, or through Alibaba's integrated messaging system. This enables the procurist to discover potential suppliers with great efficiency. However, generally the request is met with a large quantity of responses, out of which many are partially or completely unsuitable for the case at hand, depending on the complexity of the sought product (Alibaba.com 2015).

## 2.2 PRODUCER CATEGORIZATION

Chinese companies listed as suppliers can receive a number of verification diplomas, issued by Alibaba, to increase their perceived reliability on Alibaba.com. There are five mutually non-exclusive verifications that Alibaba offers: A&V Check, Onsite Check, Assessed Supplier, Gold Supplier and Trade Assurance.

**Gold Supplier:** The Gold Supplier –tier is a premium, paid-for membership that offers the supplier a variety of benefits in terms of promotion and exposure. The price of a Gold Supplier –membership is not published on the website (Alibaba Group 2015c).

**A&V Check:** The A&V Checked suppliers are Gold –tier suppliers that have passed authentication and verification by both Alibaba.com’s staff and a 3<sup>rd</sup>. party verification company (Alibaba Group 2015b).

**Onsite Check:** This tier, reserved for Chinese suppliers, holds the same verification process as A&V Check, however with an added onsite inspection by Alibaba’s staff to verify that company’s production processes are located where- and as advertised (Alibaba Group 2015d).

**Supplier Assessment:** Assessed Suppliers have undergone 3<sup>rd</sup>. party tests to verify that they deliver what is advertised (Alibaba Group 2015a).

**Trade Assurance:** Based on a supplier’s qualification status and transaction volumes, Alibaba may grant a supplier a Trade Assurance status, which effectively means that Alibaba backs any payments made from buyer to the supplier. If the supplier breaches appointed terms of the Trade Assurance, which include Shipment time and Order quality, Alibaba compensates 100% of the Trade Assurance amount to the buyer (Alibaba Group 2015f).

## **3 PRACTICAL OPERATIONS MANUAL**

### **3.1 GENERAL RECOMMENDED STRATEGIES OF SOURCING**

Before exploring the trading field of Alibaba-centric producer companies, it is important to acknowledge some of the general guidelines that should be followed throughout any initial sourcing process.

#### **3.1.1 Product sampling**

After you've found a prospective producer, it is important to sample the product first. Samples are generally paid by the procurist, as any other product would be, so expect nothing for free. For an SME, the sample size should be relatively small to minimize the economic impact should the products turn out unsuitable, however large enough to give a holistic display of the producer's capabilities. Ideally, the sample should reflect the producer's core competency's best parts, as well as its adaptability to your needs. It is imperative to note, however, that the ordered sample does not give a realistic representation of the products you will receive in the future. A sample order merely reflects the best possible quality the producer can deliver (Mahjneh 2015, Interview). Any smart producer knows to put emphasis on the samples to secure future orders and income. For several reasons, however, it is entirely possible that the product finishing level / quality may drop during future orders, as discussed in the "Risks of Sourcing" –chapter.

#### **3.1.1 Company visitations**

If you plan to use the same producer for future orders, or even lock them down as your sole supplier, a visit to the producing company after the initial order can be considered mandatory. This applies for a number of reasons. The first relates to Chinese culture and the relationship-aspect of international business. (see 4.2.). The second is about practical communication. Email and Skype are regrettably poor methods of communication when dealing with processes of extreme detail. Writing a single email may take up to an hour if done with care, and is still encumbered by mono-directional

communication. Combined with time zone changes, asking questions and having a single conversation may take days or weeks. Furthermore, representatives at the producing company have to answer similar requests to each and every one of their customers, reducing the attention an SME is likely to have. A face-to-face visit with both representatives and executives present ensures that all possible methods and aides of communication, such as pacing of words, body language, office equipment, interpreters and, most importantly, an ample amount of time, are available (Mahjneh 2015, Interview).

The first corporate visit should be scheduled after the product sampling and a preliminary decision that the target producer is found preferable. Before visitation, however, the procurist company must carefully plan specifications and requirements for the producing company to determine what they want, need, and how much they are willing to pay for it. This specification should be as detailed as possible, to enable a clear base for negotiations. There are many different ways to approach corporate visitations and much research has been conducted based on this topic. This research will, therefore, not explore the topic deeper, but merely refer the reader to embrace literature on this topic. It is highly recommended, however, that a 3<sup>rd</sup>. party Chinese representative of, for example import/export consultancy/intermediary, should be present at the procurist's table to bring more cultural understanding into the negotiations (Mahjneh 2015, Interview).

### **3.1.2 Chinese business culture & quanxi**

An obstacle many Finnish companies face when first sourcing from China is the lack of cultural understanding (Lee 2014, Interview). The Chinese business culture has traditionally revolved around the concepts of long relationships and trust. As an archetypical example, two representatives of two businesses in China are expected to know each other for a long time and treat each other as a friend before the conduction of business is ever brought to the table. With the emergence of younger generations and more transaction-based sourcing models, however, some degree of paradigm shift has occurred toward more loosely knit relationships. With long-terms sourcing operations, the old principals remain. When compared to the traditional Finnish business relationship creation, where one party first seeks out the other, orchestrates a meeting, and discusses a business proposal as the main agenda, this can seem very frank and untrustworthy to a Chinese partner (World Business Culture 2013, accessed 09.01.2015) (Mahjneh 2015, Interview).

The preferred language of business is English, either with or without a translator. The general level of English language of Chinese producers, however, is somewhat lower than with Finnish businesses, especially with older generations of Chinese executives. This can often lead to situations where both parties speak of the same topic, but have a fundamentally different understanding of the matter, without realizing this (Lee 2014, Interview).

Guanxi is the common name for traditional, Chinese relationship culture of mutual favors. The “you scratch my back, I’ll scratch yours” –culture exists between two individuals regardless of the social caste (Investopedia 2015). It links back to the concept of “face”, which enables Guanxi to keep living to this day within the Chinese culture (Business Insider 2011, accessed 09.01.2015). Guanxi, in a nutshell, means a habit of trading favor of similar magnitude between two individuals. It is within the focus point of trust creation, as Guanxi generally forms between two people who can be of mutual benefit, and are willing to build trust and respect toward one another. Not responding to one’s request of a favor of Guanxi can be detrimental to one’s business “face”, and highly damaging to relationships within that specific network. Favors can be either granted or requested, depending on the depth of the relationship.

In order to establish their position as a serious player with the Chinese networks, the procurist should work on establishing good Guanxi with the manufacturing company. Combining the concept of Guanxi with the heavily relationship-oriented business culture of China, it is practically impossible to avoid visiting the manufacturing company on their site without sacrificing the relationship. At best, these visits should be relatively frequent and focus on building personal relationships with the core executives of the manufacturer to ensure optimal treatment in the future. Gifts that go in accordance with Guanxi can be implemented, but with great care: the culture of giving corporate gifts is very sensitive in China. It is expected, however gifts that are too expensive can be seen as bribery, and targeting gifts to wrong members of the receiving company can create undesired messages. This is why it is recommended that gifts remain mainly ceremonial and low in terms of monetary value, and Guanxi-oriented acts come more from services and information rather than physical products (US China Business Solutions 2006, accessed 19.01.2015).

## **3.2 RISKS OF SOURCING: ALIBABA.COM**

When European and U.S. companies source from China, a number of risks are always present, especially within the first year of the collaboration process. By studying references from two main sources; Alibaba's extensive subsite "Safe Trading" (Alibaba Group 2015e) and the interview conducted with Jinghui Lee about Finnish-Chinese sourcing operations (Lee 2014, Interview), we divide risks into three main groups: Scamming, Quality issues and Breaches of contract.

### **3.2.1 Scamming**

Scamming is regrettably common and, even though it is commonly associated with small scale consumer trading, it can happen at any level of business, no matter the scale. Intercontinental sourcing operations create an exceptionally fertile ground for scams due to the lack of a common, enforced legal system, extremely steep legal battle costs, low likelihood of interacting face-to-face, and difficulty of traceability. Alibaba recognizes these problems and proactively seeks to battle scammers through a number of ways, such as supplier verification, payment escrow services and staff visitations.

The scams that take place are usually not of the traditional "take the money, never deliver the products" –type of frauds. In order to maximize the chances of a successful scam, the scammer must set up a credible online presence within Alibaba's sites. This takes time, effort and money, and from the scammer's point of view, the ROI should be maximized (scamming is a business, after all). Typically scammers operate within the field of the same business as the procurist at some level, and the scams revolve around unacceptable level of product quality. For example, if you order a small batch of products and pay them before manufacturing (as is common in consumer trading), the producer will deliver a batch on unusable products, just to be able to claim that the trade was completed as requested, and thus cannot be held directly responsible for any criminal activities. This ensures the maximum lifetime of their online presence, enabling the conduction of several such trades.

### 3.2.2 Due diligence on Alibaba.com

There are a number of ways to shield a proactive procurist from potential scams. The first line of due diligence is what we define as an aesthetic check-up. This consist of all the information you can gather without actually contacting the seller, and analyzing the deeper meaning of those layers. It is imperative to note at this point, however, that none of these analyses are in any way definitive, just individual pieces of a puzzle.

#### 1. Overview of the seller's profile & offering

User Robby Eaves suggested a comprehensive list of questions a potential buyer should ask themselves when studying the overall profile of the seller.

1	<i>Look at their profile on Alibaba. Remember, many scammers simply sign on as sellers with false profiles. You or I could do the the same in 10 minutes. Ask yourself, does this make sense?</i>
2	<i>Are a manufacturer's products in the same category? (ie does a shoe company sell electronics or vice versa?)</i>
3	<i>Is there a separate phone number for the fax and land line?</i>
4	<i>Is there a separate website listed off Alibaba that you can check?</i>
5	<i>How long have they been a member of Alibaba?</i>
6	<i>Are they a Gold Supplier, Trust Pass or Free Member?</i>
7	<i>Look at the Company profile. Does the paragraph look generic or copied? You can highlight all or part of the paragraph and place it in the google engine around quotes ("xx"). This allows you to search the web to see if it is original or copied?</i>
8	<i>Search the forum to check this supplier. Are there any negative postings? Use both the contact name and the company name.</i>

(Eaves 2006, accessed 29.12.2014)

Every business in China is required by the Chinese government to register itself, and receive in return a unique registered corporate number, much similar to the Y-tunnus of Finland. The registrations are handed out by the government's Bureau of Industry & Commerce. If the seller company cannot offer the registration number, or if the number is not in par with the Bureau's archives, caution is advised (Yuan 2006).

Furthermore, study the company name. Is it in par with the line of business the seller offers? E.g. the name “eTrading Shanghai Ltd.” is a much more feasible name for a multi-field scam, as it can credibly work in almost any line of business. A name like “Shanghai Royal Shoes Ltd.”, is much less likely to be used as a scam, as it can only be targeted to a very small segment of customers. The offered product line can also be studied with the same logic. Does the company offer a wide offering of product categories? This might indicate you are dealing with a 3<sup>rd</sup>. party wholesale or – intermediary company instead of a manufacturer. If you are looking for a specific product, generally look for a manufacturer who operates very closely to that core business, expanding only to logical product portfolios (such as general textiles, general cellphone components etc.) (Yuan 2007, accessed 29.12.2014). Accepted payment methods are also a sign of the professionalism of the producer. Favoring payment methods without securities, such as Western Union –transfers or direct bank transfers can be a sign of a dishonest trader. Traders, however, who accept credit card charges, offer clear Paypal invoices and/or are willing to work with escrow services, such as Alipay, are generally more trustworthy.

It is also advised to study multiple companies of the same industry simultaneously. This enables you to gain perspective on the general price level of the products you seek. A particularly high or low price offered by an individual company can be a sign of a possibly dishonest merchant (Cheung 2010, accessed 29.12.2014).

## 2. Studying contact information

Either the seller profile, or the first personal contact should provide the buyer with a variety of contact information, such as the seller’s email address, physical address, website and telephone number. These can also be studied in further detail.

Email address: look at the address. Is it a generic free service provider –address (e.g. @gmail.com, @hotmail.com, @yahoo.com) or a dedicated corporate email (e.g. sales@companyname.com)? Company emails generally come from domain ownership, thus slightly increasing the reliability of their origin.

Website: Do a basic Whois-check-up on the seller’s company website. It should give you general demographics about the owner of the domain. Is there any information publically available? Can you determine the location?

Physical address: Many providers offer operational addresses, such as Quanzhou City, Fujian Province, China. This, at a glance, seems plausible for a buyer unaware of the local infrastructure. However, comparing this to providing an address of a Finnish company simply in the form of “Tampere, Finland” would cause questions to arise. Is there a street address? Why not?

Telephone: Many extro-Chinese middleman-companies offer phone numbers that forward through China to increase their credibility. Generally, phone numbers beginning with the prefix +4470 or +4487 indicate a forwarding number, which are rarely used in business for transparent reasons.

The website:

“ <http://www.numberingplans.com//?page=analysis&sub=phonenr> “

can give you a rough estimation on the origin of the phone numbers. Is the number registered to China (Cheung 2010, accessed 29.12.2014)?

### 3. Monitoring of behavior

Telephone the provided phone number at local business hours. You will, undoubtedly, be served in Chinese. Keep requesting for English service, however. Once a representative with any level of English answers, have a brief discussion with them about their services. Also, almost without exception after your first contact, a dedicated sales representative will be appointed to you. Add them over Skype, which many Chinese sellers prefer, have a video discussion with them, and afterward monitor their online times. Are their online times in par with local business hours? This is another indication about the true location of the company, further decreasing the risk of a basic scam (Eaves 2006, 29.12.2014).

### 3.2.3 Quality issues

The quality of products can be considered as one of most varying issues when sourcing from a Chinese manufacturer (Lee 2014, Interview) (Mahjneh 2015, Interview). As stated before, any producer with business sense will put emphasis on sample orders in order to secure additional orders in the future. As the relationship begins to stabilize, however, the risk of sudden or gradual product quality decrease emerges. This can manifest in a number of different ways, from the use of inferior materials to shabby finishing or even a batch of defunctive parts. As the shipment leaves the factory, it is easy for the producer to shift the blame to either logistics, improper handling at the receiving end, or even a lack in order specifications (Lee 2014, Interview).

Several sources strongly recommend the establishment of a quality inspector at the manufacturing plant. This can either be a representative of the procuring company (to maximize product knowledge) or a local 3<sup>rd</sup>. representative (reduced cost & maintenance).

A core problem SME:s face with quality management, however, is cost structure. One of the most common reasons for an SME to procure from Asian countries is to reach a theoretically optimal ex-ante profitability. Establishing a dedicated member of the procuring company to China is rarely cost efficient for an SME, as it is generally rather unlikely that an SME employs a factory's production capacity to such extent that everyday monitoring is required. 3<sup>rd</sup> party inspectors, on the other hand, can be expensive, especially ones with an esteemed reputation. On the other hand without dedicated quality inspection the end product quality hangs solely on buyer-manufacturer trust, as reclamations are rarely enforced, and are largely open to interpretation. Thus, when determining whether to source production from China, the procurist should always include the estimated service fees of a 3<sup>rd</sup> party quality inspector into the decision making process (Mahjneh 2015, Interview).

### 3.2.4 Breaches of contract

We define a breach of contract as an arbitrary shift in the process of manufacturing / delivering / support, usually to the detriment of the buyer. In practice, these breaches most commonly manifest as lapses in production and/or delivery times. To some businesses, a lapse in delivery time can be particularly detrimental if a time window has been promised to a customer. To ease the analysis process, one should observe manufactory and logistics separately.

In order to ensure that the manufacturer ships the products on time, the procurist is advised to let go of presumptions, and craft contracts. In practice, the contract should state in writing the final date when the shipment should be handed over to the logistics provider (Sils 2014). The contract can be further enforced if the parties have agreed to the use of an escrow service, such as Alipay. The contract can then state the repercussions that affect payment, which are also known by the escrow agent.

Logistics, on the other hand, are much more transparent to track, but more difficult to influence. Most of Chinese producers use the services of large international delivery companies, such as DHL, TNT or Fedex. These companies offer a very accurate tracking system as well as reactive, multi-national customer service. When a package is handed over to such delivery companies, there are two things an SME can do to aid speedy delivery, without changing the delivery contract. The first is to take steps that the customs of destination country are aware of the package's arrival, and possess all of the required information and payments (Tullin asiakasohje 19 11/2014). The procurist can either do this themselves through internet services offered by the Customs of Finland, or pay the delivery company to for the customs handling service. The companies generally charge a percentage fee of the procurement contract's price as an intermediary service. Handling customs before the product's arrival can cut down delivery times by days.

The second way to optimize the delivery time is to stay available for delivery throughout the whole day on the estimated date of delivery. Delivery companies' core competency lies in efficient planning of transportation routes, which, at times, leads to very small windows of delivery. If the customer is preoccupied at the time, the delivery may be pushed back to next day, or force the procurist to travel to the warehouse for a pickup. Local delivery services are also often handled by small, local distribution companies, which greatly vary in their level of customer service. As they act as a

3<sup>rd</sup> party of the trade (between service buyer and service provider), such companies often lack incentive to please the customer.

Additional fees issued by the manufacturer may also can also be classified as a contracting issue. After initial contracts have been laid out and orders are sent, the manufacturer may start issuing additional fees to the contract. Common examples are Paypal transfer fees, additional material fees for larger products, packaging fees as well as the company's premium for shipping. While there are not wrong per se, they can be a vile surprise after deals have been struck and margins of profit calculated. The only real solution to this is a long, holistic negotiation process, combined with an extremely detailed contract. This can be straining for an SME, especially if sourcing for the first time, and thus assistance by an import/export intermediary and a professional of the case industry are extremely valuable (Mahjneh 2015, Interview).

### 3.3 CUSTOMS & IMPORTING

Products imported from Asia are, in most cases, subjected to value added taxation, importing fees and customs. In terms of import regulations, there is no general distinction between corporate importing and consumer importing; both are subjected to the same regulation and taxation. (Customs of Finland 2014) It is important to remember that even though the services of Alibaba might be employed as a part of the importing process, the importer never buys the products from Alibaba itself. In other words, an importer cannot turn to Alibaba for help with importation management; all arrangements must be made directly with the supplier. The following details displayed on chapter 5 are all based upon a Customs / importation guide, supplied by Finnish Customs in 2014 (Customs of Finland 2014).

When importing to Finland from outside of the EU, the importer needs to present the following to the customs:

1. Import clearance (fin: tuontiselvitys)
2. Customs declaration, which includes
  - a. Bill of trade
  - b. Possible certificate of authenticity
  - c. Possible permit of importation (Finland), permit of exportation (Country of origin)
3. Payments required:
  - a. Customs
  - b. Value Added Tax
  - c. Excise tax (to certain product categories)

(Tullin asiakasohje 19 11/2014)

#### 3.3.1 Taxation & customs payments

Imported products are subjected to customs payments, which include the value added tax of Finland and a product category specific importation fee. Shipments with the combined production value of 50€ or less are generally absolved from said payments, with the exception of alcohol, tobacco products, perfumes and eau-de-toilettes.

Customs payments are added to products that are imported from a country that a) is not an EU member, b) does not hold a trade contract with EU. Customs payments like this are always determined by a customs tariff that is individually set for each product category. The customs payment is percentual, and is derived from the purchasing price of the product, using the product category's specific percentage. This is why customs always demand a bill of trade to be delivered with the product; to verify the contents and the materials of the product delivered, as well as the paid price

by the procurist. Many consumers are tempted to request for the seller to write the formal receipt with a lower sum that was actually paid in order to gain lower customs payments. For retailers, however, this is highly recommended against, as it will lead to problems with taxation after the imported product has been sold. This can be interpreted as fraud, leading to criminal charges.

The products and their customs payment are categorized in great detail by the Finnish Customs. This is why, before launching its sourcing operations, the procurist should either study the Customs' website or contact Customs directly to find the import cost percentage for the specific product category at hand.

Some product categories are also susceptible to excise tax (valmistevero) which is predetermined for each category separately. Categories such as these include, but are not limited to: beverages and other alcoholic substances, fuels, wastage, tobacco and refreshment drinks. The excise tax must be paid into Finland regardless if the manufacturer has already paid one for the manufacturing country. (Valmisteverotuslaki 2010)

The returning of imported products is handled as an exportation process. After a product has cleared customs and has been received, all returns must go through customs before leaving the country. This simplifies the processes during, for example, a reclamation process where a product will be either remade or repaired, and then shipped back to the procurist. If the product (itself or a replacement) will be reshipped back to Finland, the customs will not re-charge customs fees & taxes during delivery (Customs of Finland 2014).

### **3.3.2 Example of importation**

Let's assume we are to import a single T-shirt from China. After the product has been finished at the factory, the importation process will progress as follows:

When the product is finished and ready for shipping, ask the manufacturer to include a shipping manifest that includes the following information:

- Contact details & address of sender
- Contact details & address of receiver
- Contents of shipment

- Total value of shipment, including shipping costs to EU

After the package has been handed to a 3<sup>rd</sup>. party logistics provider, the procurist can send an import clearance to the Customs of Finland via the customs' online service, even prior to the package's arrival. There the procurist will identify the product types, deliver any additional attachments (such as certificates of authenticity), announce the product's future purpose (such as retail, company's use), and identify both themselves and the seller.

In this case, the product's EU Taric code is 6205 20 00 10 for "Men's or boys' shirts made of cotton", which is charged with a Third country duty due to its country of origin. The tariff is 12% of production & logistics value for the product group at hand.

After Customs has received both the shipment and the import clearance, it will do a routine check to verify the shipment's authenticity, after which it hands the shipment off to intra-national logistics provider (typically DHL or Posti) for end delivery.

After receiving the shipment, the procurist will receive an invoice via mail some weeks later. The invoice includes the designated import tariff, as well as the preliminary VAT of the procurement price.

If we are to assume that we order 1 T-shirt that costs 10€ to manufacture and 5€ to ship, we gain the following additional costs:

Manufacturing costs: 10€, shipping costs: 5€

6205 20 00 10 import tariff: 12% of 10€ + 5€ = 1.8€

Value Added Tax 24% of 10€ + 5€ = 3.6€

Total procurement costs: 10€ + 5€ + 1.8€ + 3.6€ = 20.4€

## 4 CONCLUSIONS & INTERPRETATION OF RESULTS

Based on the results derived from this research's 3<sup>rd</sup> chapter, we sum up the following key conclusions:

- Work toward personal, relationship-building communication with your supplier

Honest Chinese businesses prefer to know who they work with, and establish trust through shared experience. Making the efforts to meet face-to-face and to put special emphasis on showing your sincerity to your business partner may, in the long run, secure more efficient production and even a degree of reduced prices. Be prepared to travel and to spend money on relationship building; not doing so will risk voiding the entire investment to supplier selection.

- Always sample your products, but recognize what a sample is

A sample product is a display of the best quality & workmanship the producer can deliver. Samples generally run with reduced production times and added level of detail. Note that sample order level detail should be demanded from the producer, to an extent. However, without dedicated quality control present at the site of production, enforcing this can be very difficult. If you are not satisfied with the sample products, it is highly unlikely that the producer can deliver higher quality in the long run. Therefore, if you find the samples lacking in terms of quality, it is highly suggested to look for a new producer candidate.

- Collaborate with 3<sup>rd</sup>. party trading intermediaries of your own choosing

3<sup>rd</sup>. party trading intermediaries are a valuable asset, generally worth the investment, at almost any stage of SME-level sourcing. These entities can be import/export consults, quality assurance service providers, legal / negotiations partners and/or local trade alliance members. In the beginning of sourcing operations, they can guide you to find the best partner candidates for your trade, and assist in the initial negotiation process to eliminate any cultural faux pas' that may occur. In the long run, you depending on your product you may need a varying amount of quality control on the site of production.

- Be realistic & holistic in your calculations

Almost every decision to source in China / Asia are made based on cost. As an SME, operating under any level of paucity, unexpected costs can drive a company to severe financial crises. When contemplating the initial decision whether or not to source from China, include as many scenarios as possible into your profitability calculations. These include, but are not limited to, travel costs, quality assurance costs, consultancy costs, damage control costs, supplier changing costs, as well as traditional profitability analysis costs. Sourcing from the east may not always be the most cost-efficient solution in the long run, especially as it sometimes requires tremendous amounts of investment to work. Basing your initial sourcing decision on incomplete scenarios and later discovering that the choice of Chinese was not a viable option, for any reason, will not only delay your growth, but on an SME level risk the existence of your very business.

- Due diligence and care

Not getting scammed, and receiving products of acceptable retail value is your responsibility. You cannot demand the producer to reimburse you for inferior quality. The risk is yours alone, and therefore the task leaving no stone is left unturned when exploring Chinese production markets is absolutely essential. Do all the research you can, analyze producer candidates' trustworthiness, set up a criteria your producer must match and, if possible, hire a specialized 3<sup>rd</sup>. party researcher to assist you. Chapter 3 offers a selection of superficial "clues" that help you filter out the producers that do not match the "first glance" –level of verification.

## 5 REFLECTION

The goal of this research was to shed light into Finnish-Chinese sourcing processes. One of the trickiest parts of starting international import/export –operations is not knowing what to take into consideration overall. In my personal opinion the research succeeded in identifying all of the necessary core areas of intra- & international law, Supply Chain Management, general sourcing principles, and differences of operating cultures between Finland and China. It should be used as a starting point for a more comprehensive research on industry-specific sourcing topics, due to the nature of its general approach to sourcing as a phenomenon.

Thus, further research is suggested. Following the introduced theme, these topics could be pursued to support the theses suggested by this research:

- The effect on the e-commerce boom on Chinese business culture
- Optimal ways of making contact with potential Chinese partners
- A “Lean-model” for Asia-based sourcing – most efficient and least resource-consuming processes to successfully establishing production in Asia
- Industry-specific importation practices

The issuer of this research, Raknar Oy, should put its emphasis on the 3<sup>rd</sup>. chapter of this research, as it includes the majority of practical guidance. It is up to Raknar to decide whether or not they want to share the results of this research as a part of their public communications. Should they desire to do so, however, I as an author grant my permission to Raknar and any other instance to publish my work, with appropriate creditation.

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Picture 2

## OPINNÄYTETYÖHAASTATTELU

Haastateltava: Jinghui Lee

Haastattelija: Ville Hulkko

Aika & paikka: 12.12.2014, Oulun Yliopisto

**VILLE:** So I'm here with Jinghui and were here for an interview for my thesis. I will briefly interview you about sourcing operations between Finland and China, and also ask a little bit about your experiences with Alibaba Group. Just to start off generally, would you tell me a little bit about yourself and your professional background?

**JINGHUI:** Yes. So, I studied in the university (of Oulu) Business School from 2009 to 2013 in International Business. My company Nordic Node Ltd founded in 2012 February, so so far it has been two (2) years.

**VILLE:** Was it so that you are two people in the company?

**JINGHUI:** We have four shareholders, and we basically export finnish products to China and help finnish companies to enter China market.

**VILLE:** OK, so exportation and relationships between Finland and China?

**JINGHUI:** Relationships, you mean, ok. We usually operate with our Chinese partners.

**VILLE:** OK. If it's ok to talk about Sourcing, I'd like to ask your professional opinion about a few things concerning sourcing operations between Finland and China, and sort of have your opinion about it. Feel free to answer. And feel free to answer any way proper \*chuckle\*

I'll start off by asking one question about Alibaba, however. Are you familiar with the website Alibaba.com?

**JINGHUI:** Yes, B2B and also Taobao, which is B2C or C2C, retail stores.

**VILLE:** OK. What sort of experience do you have with Alibaba?

**JINGHUI:** Well, on the B2B-side I didn't have so much experience once I was looking for some manufacturer for the mouse mat long time ago. Because one finnish artist drew a picture and wanted to make it into a mouse mat.

**VILLE:** Ok. And did you do that through Alibaba.com?

**JINGHUI:** Yes, I was looking for the manufacturer through Alibaba.com, but it didn't (work), because usually manufacturers in China require large amounts of quantity, so in the end it was not successful, because he (the artist) didn't want so many.

**VILLE:** OK, so more of a bigger order quantity website, Alibaba?

**JINGHUI:** Yes, from B2B side, or B2C side they usually don't have quantity requirements. And also this Alipay, if you know this payment system for Alibaba or this B2C system

**VILLE:** Have you used this Alipay before?

**JINGHUI:** Yes

**VILLE:** OK well that sort of answers my next question, which was that which services of Alibaba Group have you used? And there was Alibaba.com and Alipay, and was it Taobao as well?

**JINGHUI:** Yes, and T-mall.

**VILLE:** So, a large variety.

**JINGHUI:** Yes.

**VILLE:** What would you consider to be Alibaba.com's biggest strength?

**JINGHUI:** Hmm.. because I used T-mall, Taobao and Alipay a lot, I think that's the big advantage, because they reach a lot of consumers. And this Alipay is very safe for sellers and buyers.

**VILLE:** OK. I'd like to ask you a few questions about sourcing. Just in general first, but in doing business between Finland and China, about the relationship point-of-view, if you will. So, how would you describe the differences between business culture between Finland and China, generally?

**JINGHUI:** Yeah, well, the first that came to mind is when people in Finland start to do business they usually go quite straight into the business, but in China people have to know each other for along time, they have to be friends first and build trust and then start to do business. Maybe something small and then the target is something big. But in Finland that is not so necessary.

**VILLE:** Would you consider that this is maybe a problem for the finnish companies that first start doing business in China? That they maybe do not realize this, and try to oush the business first?

**JINGHUI:** Yes, I would say it is a problem because if some finnish company don't know this culture they go straight to business, and maybe the Chinese can be confused or maybe they feel, you know, they don't know why you go straight to this problem. And also in China when people talk about a topic, they talk a lot of things around this topic, not straight to this topic, when finnish people usually go straight to this topic.

**VILLE:** Yes. What would you consider to be the biggest challenges small finnish companies usually face when they first start doing business with China?

**JINGHUI:** Usually the biggest problems for SMEs is they don't know, they can't find trustable partners, they don't know how to find them. And for example in China markets people don't know anything about the products and they don't know the brand. They don't recognize the brands.

**VILLE:** That's a good point. The brands and products that are very obvious to us are completely unknown to them

JINGHUI: Yeah, for example Fazer is so well known in Scandinavia or Europe. In china, only a few people know about it.

VILLE: That's a good point. Then again from a different perspective, what would you consider to be the greatest asset a company, for example a small company could have when starting their business with a Chinese partner? What would be something that, you know, if I'm now considering, as an entrepreneur, starting to do business, for example buying something from China, what is something that I should have that would make my life or work much easier?

JINGHUI: Well, I would say you need a partner who know how to deal with you, or things, or Chinese part.

VILLE: OK, so someone who knows how to do business in China. What would you think, or in your opinion, are the most common reasons why finnish companies, like joint-venture operations in China, usually fail? Do you think there is one reason that rises about everything, or is it more case specific?

JINGHUI: I think there are general reasons, like that business culture and different ways of understading things. Sometimes I've noticed that, even for example the Chinese part, or the finnish are talking about the same things, but have a different understanding on the matter. So there could be some misunderstandings even though they are talking about the same thing.

VILLE: OK, so miscommunication would be a big thing, like we're discussing a topic and we think that we are talking about the same thing...

JINGHUI: Yes, and we have a different understanding on it.

VILLE: That's a very good point. Actually I'd like to continue on that topic, on language and communication. Finnish people generally speak quite good english. But would you consider that there is, say, a language barrier between Finland and China? Would you consider that language creates problems in the sourcing process?

JINGHUI: Yeah, it creates some problems at some level. Of course there are Chinese people who speak very good English. Well, yeah, I I thik if people speak very good English there isn't a very big problem. Usually people don't speak so well, so there might be misunderstandings in the conversation.

VILLE: OK. What would you consider to be the best way to approach, for example, if a finnish company and a Chinese company start doing business together, what would be the optimal language to use?

JINGHUI: Well, of course English. You just have to find a partner who can speak good English, or have a translator who speaks good English. And the partner's translator has to understand business things.

VILLE: OK. How would you say is the common the language level in corporate level in china? To most employees of Chinese corporations speak English to some level, or is it limited to people who work, for example, in international sales?

JINGHUI: Yeah well, I think nowadays young people speak some level of English, but they don't need it so much. So, usually those people whop do international business or are working internationally are speaking better English.

VILLE: OK, so a it's connected to the generation as well. Younger generations tend to have a better understanding. OK then, I'd like to ask you something about risks involved. For example, if a finnish company was to buy the services of a Chinese company, say, buy a product, this classic type of sourcing, what would you consider to be the biggest risks a Finnish company faces when dealing with Chinese companies?

JINGHUI: I want to say that it would be the quality assurances. Because in some Chinese factories or manufacturer the quality is not controlled so well. Sometimes, they maybe give you a sample that is made really well, but then if you order big quantities, there can be some quality problems. And you need somebody to watch the quality for you.

VILLE: Ok, so you'd recommend having a quality inspection person of you own company in China?

JINGHUI:

Well, not necessary in your own company. If some company who provide such a service, I think that's ok. I think there are lots of companies who offer such service, of quality assurance. You have to choose a good one.

VILLE: So when procuring products or servies from China, right from the start one should contact a 3<sup>rd</sup>. party quality inspector, so to say, who would work with the buying company?

JINGHUI: Yeah

VILLE: Do you have anything else that comes into mind about the risks? What other risks might be involved?

JINGHUI: Well, maybe some risks involve the impayment

VILLE: Not receiving payment?

JINGHUI: Yeah like, maybe it could happen like after you pay they don't deliver the products in time, for example.

VILLE: OK, so not delivering products in time.

JINGHUI: Yeah, and sometimes it happens that transportation takes too long time, you can't really control that.

VILLE: Yes, do you have anything that comes to mind that could be done to help prevent this?

JINGHUI: I was thinking at the manufacturer that if you have some people watching all the time in the quality assurance, then its ok, they can make sure everything goes well at the factory / manufacturer. But for the delivery sometimes things happen at the customs and it takes too long time.

VILLE: OK, so customs. Speaking about the quality assurance services, do you have any experiences with Alibaba's own quality assurance?

JINGHUI: No I don't.

VILLE: OK. In you carreer, have you encountered any cases of scamming?

JINGHUI: What does that mean, exactly?

VILLE: Scamming is... If I'm scamming you, for example, I'm telling you that I'm selling you this product, and you give me the money, but I won't give you the product and go away. So cheating, so to say.

JINGHUI: I have been really careful, so I haven't encountered such things.

VILLE: OK. What about your clients, customers or associates, do you know?

Well, I think it's quite possible that some company or people encounter such problems, for example if you want to sell something to china and the buyer promises to pay the amount in some time, but they don't pay in time or try to negotiate with you again about the price. All kinds of things could happen.

VILLE: And then just generally. When a company, for the first time starts exploring their options in China, to either buy or sell, what are some of the thigns a finnish company should know or take into consideration before contacting Chinese partners?

JINGHUI: There are so many things to take into consideration. I would say they have to understand the business culkture in China. How to do business. For example, you have to know this person before for a long time or a certain amount of time. And then you have to know how the way the Chinese people think. Then you have to go visit them personally. You can't always make phone calls and email, you have to visit.

VILLE: OK, that's a valuable point as well.

JINGHUI: Some of these things I wrote to my master's thesis as well.

VILLE: Well, I think we're just about done here. I do thank you for your time, Jinni, this was very valuable to me.

JINGHUI: No problem, it was a pleasure to help.

VILLE: And I'm closing the interview.

- END

## OPINNÄYTETYÖHAASTETTELU

Haastateltava: Luai Mahjneh

Haastattelija Ville Hulkko

Aika & paikka: 03.01.2015, Torikatu 4 A5

VILLE: Istumme nyt asunnollani yhdessä Luai Mahjneh:n kanssa. Minä olen Ville Hulkko, ja haastattelen Luaita osana Oulun Ammattikorkeakoulun opinnäytetyötäni. Aiheena meillä on tänään Suomen & idän kaupan, no erityisesti Kiinan, välinen hankinta, tai Sourcing-toiminta, sekä sitten Alibaba –portaali ja sen käyttö. Kertoisitko, Luai, kuitenkin ihan alkuun itsestäsi ja ammattitaustastasi?

LUIA: Joo. Olen Oulun Yliopistosta, Tuotantotalouden laitokselta, valmistunut Diplomi-insinööri. Perustajajäsenenä oon Adrige Oy:ssä sekä Raknar Oy:ssä, ja Raknarin toimitusjohtaja. Raknar on mittatilausvaatteiden tuontiin keskittyvä yritys, joka pyrkii tuomaan 3D-kehoskannaustekniikkaa vaatemarkkinoille. Raknarin kanssa ollaan tehty bisnestä tällä hetkellä Puolassa, Italiassa, Kiinassa ja Thaimaassa.

VILLE: OK. Tää on ilmeisesti kahden miehen yritys?

LUIA: Kyllä, kaks osakkeenomistajaa.

VILLE: OK, eli idän kauppa on ehtinyt jo tulla tutuksi?

LUIA: Joo, ollaan tilattu useammalta Kiinalaiselta ja Thaimaalaiselta tehtaalta eri määriä tavaraa, ja jonkin verran Turkista ja Italiasta.

VILLE: OK. Jos sopii, aloittasin muutamalla kysymyksellä Alibabasta. Onko Alibaba.com sulle tuttu websaitti?

LUIA: Joo on kyllä, Raknarilla erityisesti alussa käytettiin Alibabaa tosi paljon. Etittiin sitä kautta tavaraa ja toimittajia.

VILLE: OK. Kertositko vähän enemmän, millä tavalla ja miksi te käytitte Alibabaa?

LUIA: No.. Siis meidän tuotteet, tai ydintuote, on mittatilauspuvut. Me etittiin aluksi Alibabasta mittatilaustehtaita, sillä tiettiin että pari yritystä valmistaa Aasialaisella tehtaalla jo pukunsa, siis mittatyönä. Me etittiin sieltä pukuja , sit kans kaikkia mahdollista oheistuotteita, niinku paitoja, solmioita, taskuliinoja, kasseja, käyntikortteja, siis kaikkea mitä voidaan joko myydä tai ite käyttää. Sit miks.. hmm, no vähä vaikee sanoa, ehkä pääasiassa siksi, että törmättiin ikäänku sattumalta koko saittiin, ja ruvettiin sitte tutkiin sitä ja tultiin siihen tulokseen, että ”hei täältäähän me voitais löytää eka tuottaja”. Ja ihan hyvin meni, meillon nyt tällä hetkellä kiinasta Alibaban kautta löytynyt valmistaja.

VILLE: OK. Mitä Alibaban palveluita te ootte käyttäneet? Siis kun on näitä, Alibaba.com:n lisäksi Aliexpress, Alipay, Alibaban laadunvalvonta jne.?

LUAL: Hmm. No ei me oikeestaan Alibaban lisäksi muita. Taino käytettiin me Alisource Pro:ta, haettiin tuottajia sillä kans Alibabasta. Mut sehän tais olla siellä saitilla itsessään?

VILLE: OK. Miksette käyttäneet muita palveluita?

LUAL: No oikeestaan ei ollu tarvetta. Aliexpresshän on kuluttajille, tai yksittäistuotteille, vähä niinku ebay. Siitä Alipay:sta me puhuttiin, mut tuottaja pyysi Paypalia, niin ollaan menty sillä ja on toiminu ihan hyvin. Tää on kuitenkin sen verran pientä vielä tää bisnes, ettei tässä puhuta mistään älyttömistä rahallisista riskeistä per tilaus. Taisiis näytetuotteiden ja alkutilausten kanssa ainakaan.

VILLE: OK. Mitkä sun mielestä on Alibaban suurimpia vahvuuksia? Eli niinku pienyrittäjän näkökulmasta, tai alottavan, jolla on kuitenkin aika pientä toiminta, mitkä sun mielestä oli niitä hyviä puolia?

LUAL: Hmm.. Nosiis mehän löydettiin sieltä tuottaja puvuille. Se ei onnistunu ekoilla yrityksillä, mut löydettiin sieltä silti muitaki hyviä vaihtoehtoja joita voi käyttää ehkä myöhemmin johonki muuhun. Et kyllä siellä tarjoajia löytyy, aivan varmasti, laidasta laitaan.

VILLE: OK, eli sieltä pääsee oikeesti kontaktiin esim. Kiinalaisten tuottajien kanssa.

LUAL: Pääsee joo, välissä tulee niin paljo yhteydenottoja ettei oo järkeä vastata kaikille. Niitä myyntitarjouksia tulee kuitenkin aika ahkerasti.

VILLE: OK. Entä sitte mitkä sun mielestä on Alibaba.com:n suurimmat heikkoudet?

LUAL: Nosiis, ehkä saman asian, kolikon kääntöpuoli tosta yhteydenottohommassa, että siis niitä tarjouksia tulee niin paljon ja laajalta skaalalta, osa semmosiaki joilla ei oo mitään tekemistä sun bisneksen kanssa, että aina ei pysty karsimaan jyyviä akanoista. Paljo menee aikaa hukkaan ku viestittelee, kirjoittelee maileja kaiken maailman tuottajille kun et vielä tiä mitä ne tarjoo. Kun Alibabahan, esim just tää Alisource Pro, pyrkii vaan suunnilleen suodattamaan sen mitä etitään ja kuka tarjoo, nii että joudut kuitenkin ite tekemään loput. Koneethan sen tekee.

VILLE: OK, eli välissä on ongelmia löytää just "sitä oikeaa" sieltä seasta?

LUAL: Joo.

VILLE: OK. Sit hankintatyöstä yleisesti, tai saa siis vastata Alibabanki näkökulmasta. Miten kuvailisit bisneskulttuurien eroa Suomessa ja Kiinassa?

LUAL: Hmm.. Tähän on vähä vaikee sanoa, valtaosa meiän kommunikaatiosta on ollu kuitenkin etäviestintää, ja välissä tosi huonoilla kielivalmiuksilla. Mut tuntuu, että oikeesti parhaita asioita mitä voi tehdä on mennä käymään siellä paikan päällä, tapaamassa niitä ihmisiä. Tosi monen yrityksen kanssa asiakaspalvelu saattaa olla etänä vähä mitä sattuu, ja ymmärtäähä sen. Paljo länkkäriasiakkaita, englannin kielitaito harvoin iha samaa tasoa ku täällä, ja monesti tosi vaikeita,

teknisiä asioita ratkastavana. Mut ku menee paikan päälle, oppii tunteen niitä oikeita ihmisiä, tapaa näitä executiveja ja saa niiden yhteystiedot, niin on paljon paremmat valmiudet reagoida sitte jos ongelmia tulee. Ja se että ne oppii tuntemaan sut, bisnestä on kuitenkin parempi tehdä ihmisten ku sähköpostipalvelimien kanssa.

VILLE: OK. Ihmiskohtaaminen on siis tärkeää. Miten se ilmenny esim. Teillä, Raknarilla?

LUAL: No menemättä nyt sen syvemmälle ite bisnekseen, niin yhdellä visiitillä missä käytiin Thaikuissa, menttiin sinne listan kanssa asioista, jotka meille oli suuria kynnyskysymyksiä ja luultiin, että niin niilleki. Mut kävikii nii, että kaiken sen pysty ratkasemaan hihaa heilauttamalla, preferenssikysymyksiä vaan. Isoihin ongelmiin löyty heti simpellit ratkasut. Sähköpostilla se ei olisi onnistunu ikä kuuna päivänä.

VILLE: Jees. Tää vastaaki osittain mun seuraavaan kysymykseen, mut kysytään silti: mitä sun mielestä suomalaisfirmat vois tehdä maksimoidakseen onnistumismahdollisuudet Kiinan-Sourcingissa?

LUAL: Nosiis tuo just, että on ihmisenä paikalla. Käy siellä sillon tällön, ainaki sillon jos isoja ongelmia ilmenee. Ja muutenki ois tosi hyvä jos siellä alueella vois olla oma edustaja, joku tällanen ei-tuottajafirman ihminen jonka vois lähettää ratkomaan monimutkasempia ongelmia, ja tekemään esimerkiksi laadunvalvontaa. Meillä laatua ei nyt silleen pysty paikan päällä puvuissa valvomaan ku istuvuus on se päämuuttuja, mut monissa muissa tuotteissa kyllä.

VILLE: OK. Mitä sanosit, miksi sun mielestä tällaset Sourcing-operaatiot yleensä Suomen ja Kiinan välillä epäonnistuu PK-yrityksillä?

LUAL: Hmm. No vaikeehan tohon on sanoa mitään yleistä syytä, tottakaihan kaikki on aina tapauskohtasia, mut just PK-firmoilla monesti varmasti koon takia. Pieniä firmoja ei osata ottaa vakavasti, varteenotettavina pelureina, ja niiden kanssa hommat hoidetaan vähä vasemmalla kädellä. Sen sijaan, että se firma sais kasvaa, se kuolee pois laatuongelmiin ja siihen, että tollaseen hommaan pitää investoida oikeesti aika paljon, idän-sourcaamisen raitelle saantiin, monia tuhansia. Nomo-Jeans on mun mielestä meidän toimialalta aika hyvä esimerkki tästä.

VILLE: OK, hyvä poitti ja case, täytyy perehtyä tohon kans lisää. Päästäänki oivana aasinsiltana tästä riskeihin, joista ois pari kysymystä. Näin ekaks, mitkä sun mielestä on suurimmat riskit Suomalaiselle PK-firmalle sourcata Kiinasta?

LUAL: No laatu on varmaan se ykkönen. Kiinalaiset on jännää porukkaa siinä mielessä, yleistetään nyt vähän, että samalta tehtaalta voi tulla ihan älyttömän kovalaatusta tavaraa, ja seuraavassa erässä ihan käyttökeltotonta tavaraa. PK-yrityksenä sä et voi elää sellasen epävarmuuden kanssa. Et sä voi myydä tuotetta, jos et tiä tuleeko sieltä ankka vai lohi sieltä tuottajalta. Koska sun kontolle, sun brändille se kuitenkin menee. Sit toisaalta, kun aloitetaan sourcausta, on sen lopullisen

kustannustason selvittäminen aika vaikeeta, ja pitkä prosessi. Kiinalaiseen bisneskulttuuri ei toimi hinta-asioissa aina samalla tavalla kuin Suomalaiset. Täällä mennään hinta edellä, siellä hinta lyödään lukkoon vasta sitten kun kaikki asiat on testailtu ja katottu läpi, partnerisuhde muodostettu ja kaupanteko jo aloitettu. Suomalaisyrietykset näkee tän usein huijauksena, että sitoudutaan yhteen hintaan ja myöhemmin pyydetäänki muuta. Tää voi olla tosi ongelmallista kun projektilla tai kustannusrakenteella on joku limitti, budjetti, jonka pohjalta sourcaus alotetaan.

VILLE: Jees, kiitti. Miten sitte ihan konkreettinen huijaaminen, ootko kohdannu sellasta uran aikana, esim. Raknarilla? Että luvataan ja otetaan rahat mut ei toimiteta, tai jotain vastaavaa?

LUAL: No ei oo ollu suoraa huijausta vielä kertaakaan. Ehkä siitä täytyy nostaa Alibaballe hattua, ne ilmeisesti kattoo aika tarkasti niitä tuottajien luotettavuutta, pitää tarkassa syynissä. Mut sellasta on ollu, että ollaan tilattu tuote joka on kyllä tullu, mut ihan höpöhöpölaatusena. Et käytännössä ros kiin lähteny suoraa, ja laskut on silti pitäny maksaa. Nuo on tosi hankalia riitauttaa nuo jutut, ku ne menee niin, että sä itse asiakkaana oot tilannu just tällasen tuotteen. Se tuote mikä toimitetaan on sun spekseillä tehty, ja jos se on huono, sun speksit oli huonot. Se vastuu on tosi helppo kiertää. Siks noita ei voi oikein riitauttaa.

VILLE: OK, eli vähän tällasta harmaata aluetta, myydään tuote joka ei mitenkään vastaa odotuksia. Mut ihan räikeetä scammiä ei oo tullu siis vastaan?

LUAL: Joo, ei oo, et lähinnä näitä mitä mainittin.

VILLE: OK. Entä sitte kielen rooli, viittasitki siihen jo vähä aiemmin, onko se ongelma sun mielestä? Tai mitä kieltä te käytätte Kiinalaisten kanssa, pelaatteko englannilla vai käytettekö ihan translatea tai tulkkia vai miten?

LUAL: Englantia käytetään joo, ei oo tarvinu vielä meidän turvautua translateen. Mut joskus varmaan vastapuolen kyllä. Joo, se tahtoo olla vähä ongelma välissä, että ku tosiaan ratkotaan välissä tosi teknisiä ongelmia, sen oikeen viestin perillesaanti ei oo aina helppoa. Tietyllä tapaa kirjojettu viestintä, esim. Sähköpostit tai skype-chatti, helpottaa koska se antaa aikaa pelata. Sisäistää se viesti. Mut tuntuu välissä, että nää myynti-ihmiskää ei puhu oikee hyvää englantia. Insinöörit nyt ei varmaan, ja sitte taas ku myynti-ihmiset ei tiä tuotannosta, niin tällasta miscommunicationia tapahtuu kyl. Tulkki ois varmasti paras, ja että vois tulkin kanssa olla paikan päällä ratkomassa asioisa. Mut seki on sitte aika kallista.

VILLE: Joo. Kielikysymykset on kieltämättä joskus hankalia. Muthei, mulla alkaa olla kysymykset tässä. Tuntuuko, että johonki pointtiin jota kysyin, jäi jotain kommentoimatta mitä oisit halunnu vielä lisätä?

LUAL: No eipä oikeestaan silleen. Alibaba on hyvä työkalu, mut ei ihan helppo. Se vaatii opettelua ja sisäistämistä, ja tottakai semmosta tiettyä rivien välistä lukemisen taitoa. Tää idänkauppa ei oo

helppo laji, varsinkaa pienille pelureille tai sellasille joilla resurssit on erityisen rajalliset. Siks suosittelisin PK-yritykselle, että eka yrittävät tuottaa vaikka kotimaassa tai EU:ssa jos mitenkään kustannukset antaa myötä, että saa sen perusliiketoiminnan kuntoon.

VILLE: Okei! Hei, kiitos todella paljon Luai, tää oli hyvä haastis! Ja suljen haastattelun nyt.

--LOPPU--