



Photos (3): EHI Retail Institute

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# Sourcing in China

To the well-established suppliers in Europe the Chinese shopfitting industry has become a competitor seriously to be reckoned with. It may be worthwhile to develop partnerships with providers who are able to meet the high quality requirements of the European customers in a reliable manner.

▷ **China is one of** the fastest growing economies in the world. While, last year, the European Union and the United States had to put up with a three to four percent decline of their economic performance, the People's Republic reported an increase of almost nine percent. In 2009 China exported goods worth 1,201.7bn dollars, the German Federal Statistical Office has reported. That means, that the Chinese have replaced Germany as the world champion of exports.

Wood and steel processing are among the rising industries in China and the flourishing capital goods industry provides these activities with a lively domestic demand. To this, the retail trade also makes a contribution. China's shopfitting companies benefit from the rapid growth of the retail business, which clearly shows double-digit growth rates (+18,2 percent in the first six months of 2010). At the same time the manufacturers of shelf systems, displays and other products for the equipment of retail premises are penetrating the export markets with unrivalled low prices. One example is that of the Shanghai-based company Meikolong, which produces on three manufacturing sites shelving and furnishing systems made of steel and wire. Meikolong expects to reach a turnover of 60m US dollars in 2010, 80 percent of which will be generated by exports. The company realises 40 percent of its turnover selling shopfitting equipment for the food retail trade and 30 percent selling shopping trolleys. Among its clients in Europe are such prominent companies as Carrefour, Tesco and the Metro and Kaufland groups.

## The human production factor

The Qumer Furniture Co. of Shanghai also wishes to expand its export business. By the end of the year, a new 100,000 sqm manufacturing hall will be added to the existing 50,000 sqm production area. The company, which was only founded in 1997, boasts an annual turnover of 70m US dollars and focuses on the production of furnishings for hotels and restaurants as well as office furniture, but it also manufactures shop equipment for, amongst others, the Disney Stores and Dolce Gabbana.

It may well be worthwhile for a European shopfitting company to partner up with manufacturers from China. For instance, those companies which don't produce shelves or displays themselves, but have them manufactured by external firms. Thanks to their modern factories, companies like Meikolong or Qumer are quite capable of manufacturing shop furnishings with a good and constant quality for the European market also. The large companies producing steel shop fittings can largely afford to do without computer-controlled production lines and industrial robots. Instead, they rely on the human production factor as an almost inexhaustible resource. 1,600 people are employed in Meikolong's workshops. The cutting, welding and assembly of the steel profiles and the shelves is carried out using massive manual labour, whereas low wages guarantee a high profitability.

"You get the quality you ask at an affordable price", says Preben Bailey of New Store Asia, the sourcing company of the European shopfitting group New Store Europe (read also the interview on page 44). The quality is so reasonable, because the labour



▲ A look at the joiners' workshop at Qumer/Shanghai

costs involved in polishing or finishing the profiles and shelves are very low. The same goes for wooden shop equipment. Particularly because the work is largely carried out manually, the constant quality of the end product becomes a critical point. For European shopfitting companies who enter into cooperation with Far Eastern suppliers, the exact definition of the quality and the quality control itself are truly the alpha and the omega, at least in the early stages of the business relationship.

The quality requirements of the European clients are indeed much higher than those of the buyers on the Chinese domestic market. When one visits Meikolong's showroom, one immediately recognises the difference between export products and products intended for the Chinese market. Shelving systems with visible welds and thin profiles don't stand a chance with the demanding European clients.

Quality controls can of course be carried out most effectively if the European importer has an in-situ purchasing office at his disposal, as is the case with New Store Europe. That way the entire sourcing process can be monitored, from the selection of suitable suppliers to the manufacture of the products and the shipping to Europe.

The company Barthelmess, one of the leading suppliers of sales promotion material, also has a good experience with a purchasing unit in Shanghai. "We often develop five, six or seven projects simultaneously in China each year. In order to permanently secure the performance standards we require, a continuous local presence is indispensable", says managing director Wolfgang Bastert. In its day-to-day business Barthelmess is assisted by local staff. Bastert: "This gives us an entirely different appearance towards our suppliers." Apart from the classic decoration products for his catalogue, the visual merchandising specialist, based in the South German city of Fürth, chiefly procures individually developed and produced products from China, such as decorative objects and shopfitting elements. "It is essential that the cost advantage of the Chinese products, on the one hand, and the increased complexity of the processes and the heightened quality risks, on the other, tip in favour of the cost advantage at all times", Wolfgang Bastert explains.

## CHINA

### Facts + figures

**Population:** 1.4 bn  
**Area:** 9.57 m square km  
**Capital:** Beijing (Peking)  
**Largest city:** Shanghai (pop.: 11.1m)  
**Currency:** RMB/Yuan  
**GDP:** 2,209bn euros (2007)

Although for direct sourcing from China one doesn't necessarily need a local office, not having one implies higher risks. Tonny Dam Madsen of AG-Link in Shanghai warns the shopfitting firms who wish to import from China on their own initiative for possible pitfalls: "It is absolutely necessary to check before the completion of any contract whether the supplier you have chosen actually has a plant, or did he just invent an address? Is the technical factory equipment really as modern as promised?" To be on the safe side one should therefore take a close look at those firms beforehand, the Danish entrepreneur advises. Madsen's company AG-Link, which was founded eight years ago, has specialised in supporting European companies with their purchases, as well as their production and quality controls. Its customers are most-

ly small and medium-sized firms that want to take advantage of the low manufacturing costs in China, but do not wish to invest in their own in-situ establishment.

### Support from a full-service partner

Regardless of the sourcing strategy one wishes to follow in China, advance payment is a prerequisite to do business. As a rule a down payment is requested as security at the conclusion of the contract. This may constitute up to 50 percent of the amount of the order. The remainder then has to be paid before shipping. As far as delivery times are concerned, one should add at least two or preferably three months to those needed for the procurement of goods in Europe, Preben Bailey suggests.

A further factor are the logistics costs. The transport to Europe is particularly advantageous if the goods fill a 40' container. The shipping costs Shanghai-Hamburg amount to 3,800 dollars (excluding insurance, situation at the end of July), to which the transport costs inside China - currently 3,030 RMB or 350 euros - have to be added, as well as the custom duties in Germany. When creating a start-up in China several bureaucratic hurdles have to be overcome. One needs a business licence and a registration as a FICE (Foreign Invested Commercial Enterprise),

## INTERVIEW



### Quality control is essential

Since 2009 the European shopfitting group New Store Europe is operating a procurement office in Ningbo, China. stores+shops talked to Preben Bailey, who together with his wife Anna runs the business on the spot.

**s+s: Mr. Bailey, what has been the decisive factor for New Store Europe (NSE) to establish a purchasing office in China?**

**BAILEY:** NSE is still a relatively young association of European shopfitting firms. To consolidate this group, and also in view of possible synergies, joint procurement and manufacturing are an important prerequisite to satisfy our European retail customers. Already before 2009 NSE has purchased goods from China through commercial agents, but the quality of the merchandise did not always meet the quality required, or it arrived too late or was too expensive. A decision had to be made: either drop China or take matters in our own hands. At EuroShop 2008 NSE's chief Morten Gron-Hansen asked me if I would be wil-

ling to take up the job in China. Since the beginning of 2009 I manage New Store Asia in Ningbo, together with my wife.

**s+s: Yet it is cheaper to organise the direct purchase from Chinese suppliers from within Europe. Wouldn't that have been an alternative solution?**

**BAILEY:** For the procurement it is essential to be on the spot. You have to inspect the firms, evaluate what's on offer and carry out the quality controls. In short, you have to monitor the entire sourcing process, from the first contact to the shipping in the container port. In addition, having one's own purchasing office is, in the medium term, more efficient and at the end of the day

also more cost-effective, on condition that you are prepared to make the necessary initial investment and are able to recruit the right personnel.

**s+s: In which areas of shopfitting is buying in China in your opinion particularly worthwhile?**

**BAILEY:** We particularly see advantages in metal furnishings, which includes chromium-plated or powder-coated products, as well as stainless steel or aluminium, but also glass and acrylic fiber. And partly also injection mouldings, as the tools used in China are absolutely competitive nowadays. Although China is a member of WTO, it doesn't mean that unlimited free trade is now possible. The

a process that takes some three months and costs 120,000 RMB (approx. 13,500 euro) in fees. At least 500,000 RMB (circa 57,000 euro) have to be deposited as registered capital, 15 percent of which has to be paid in during the first three months, the remainder within two years after the acquisition of the business licence. To handle those application formalities, but also to support other start-up activities, such as renting office space or hiring personnel, it may be useful to cooperate with an experienced local partner company. New Store Asia, for instance, has its offices in the Nordic Industrial Park (NIP) in Ningbo. NIP was established in 2002 by a group of investors from Norway and was one of the first ever foreign industrial estates in China.

The site covers an area of 325,000 sqm, 175,000 sqm of which consists of assembly shops and warehouses, and 25,000 sqm of office space. Currently 45 European firms, primarily from Scandinavia, use NIP's facilities. The clients are for instance provided with a fully equipped office, or they can rent space for the production or final assembly of export goods. The partner firms can also obtain quality control services.

Building a business relationship in China is in any case a major challenge for European shopfitting companies. A basic knowledge of the Chinese culture and pattern of behaviour is certainly helpful. One should be patient and not give up the first time



▲ Metal processing at Meikolong in Shanghai

something goes wrong, Tonny Dam Madsen advises. Despite their hefty bureaucracy, the Chinese act in a very pragmatic manner and they find a solution for almost every problem. Madsen: "Never forget that there is no such thing as 'no' in China".

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imports from China into Europe are still hampered by anti-dumping duties. This applies, for instance, to screws and attachments. One should therefore constantly keep an eye on the prevailing political circumstances, as they can distort the entire pricing of a project.

#### **s+s: And how do you assess the prospects for wood shopfitting?**

**BAILEY:** In general, the competition in the wood shopfitting branch is less intense, unless you are looking for costly, hand-made sales furniture with carvings or such. In this area the import may prove to be advantageous, because contrary to Europe China has a large number of skilled workers at its disposal. To export products from the wood processing industry, the companies must pass an official approval test. That costs the principal time and money and it is just one of many examples of the highly developed bureaucracy in China.

**s+s: A critical point when sourcing in China is the quality of the goods. How can one make sure that the quality of the products actually will be up to the standards laid down at the time the order is placed?**

**BAILEY:** In China you get the quality you ask and for which you also pay. That quality is relatively good and at the same time the wages in China are low. Our clients in the European retail industry get more value for money and we ourselves also increase our profitability. But that can only be guaranteed if our own qualified engineers carry out the quality controls in situ.

**s+s: Sustainability and corporate social responsibility are important concerns for the European shopfitting industry. Often the working conditions in Chinese industrial companies do not meet the expectations of the European buyers. How important does NSE consider these aspects to be? Can socially responsible behaviour be monitored?**

**BAILEY:** CSR and the Code of Conduct are an important part of New Store Europe's corporate philosophy. In our experience, based on countless factory visits carried out in almost two years now, maybe 20 out of 100 Chinese firms meet the criteria of the Code of Conduct. NSE only purchases from companies it has inspected: no pollution, no child labour, protective equipment on the work

floor, regular working hours. Our Chinese staff at New Store Asia have translated the Code of Conduct into the local language. And we can proudly say that we have made a contribution to improve the labour conditions in the factories. We only enter into a business relationship after we have convinced ourselves that improvements visibly have been made.

**s+s: Despite all the advantages, it remains a fact that to have one's own procurement office in China requires a high initial investment. What do you recommend to those shopfitting firms who consider a commitment in China but can't or won't make the necessary investment?**

**BAILEY:** Enter into sourcing partnerships with like-minded shopfitting firms! If the partners pool their efforts and spread the risk, all will benefit from the synergies. That is, by the way, also the philosophy of New Store Europe, as an association of 14 shopfitting companies from ten European countries. Contact points in that respect are the national and international shopfitting associations, such as the International Shopfitting Organization ISO.