

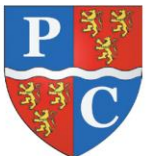


**Pozières
Consulting**

CASE STUDY



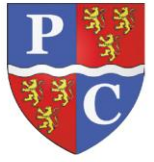
Chinese Due Dilligence



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CASE STUDY: CHINESE SUPPLY CHAIN RISK

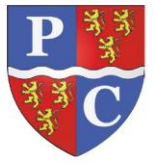
Brief:

Our client was a medium sized European electronics manufacturer who used four different Chinese partners for the manufacture and assembly of their products. Pozières Consulting was engaged to provide due diligence on one of the four Chinese partners and to analyse and identify any potential supply chain management risks.

Our client was concerned with the behaviour of one specific supplier who was trying to leverage higher prices for critical components after every second consignment, suggesting it was because of supplier price hikes. It became obvious to our client that their supply chain did not stop with their four partners but extended outward from their core suppliers into a complex web of potential risks.

Our Research:

Using a number of methods including a market analysis, interviews with suppliers and officials, posing as potential buyers, conversations with in-country contacts and a comprehensive product analysis, our analysts were able to create a detailed supply chain map for analysis. Our contact with suppliers, buyers and officials also allowed us to gain insights into existing partners and suppliers within the supply chain map as well as possible alternative partnerships, joint ventures and suppliers for our client.



Result:

Our analysts were able to demonstrate that:

- Rather than a supply chain of four Chinese partners, our client actually relied heavily on thirteen separate suppliers;
- Two of the four Chinese partners were actually owned by the same person despite claims to the contrary;
- The conditions of the live-in workers in one partner factory's dorms were well below government mandated standards;
- One partner was completely reliant on our client for orders and despite giving the appearance of being a busy workshop when we visited as potential buyers, later impromptu visits found the workshops empty;
- The same partner offered to sell our buyer a generic product that was almost identical to our client's product;
- Claims of price rises for specific components were true in all but one case;
- The price of one key component was being over-charged by a full 100%, adding .3% to the total price of the final product;
- When compared to the first order 2 years' prior, some components had been substituted for poorer quality components in what constituted clear attempts at 'product fade';
- There were three other suppliers in the same region that offered potentially better turnaround times;
- Two partners had questionable processes around FCC certification of our client's products, which is a crucial element to selling to the US market;
- One partner had questionable processes around the CE certification of our client's products, which is a crucial element to selling to the European market.

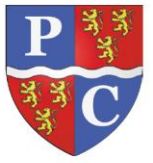
Recommendations:

Our recommendations were for our client to:

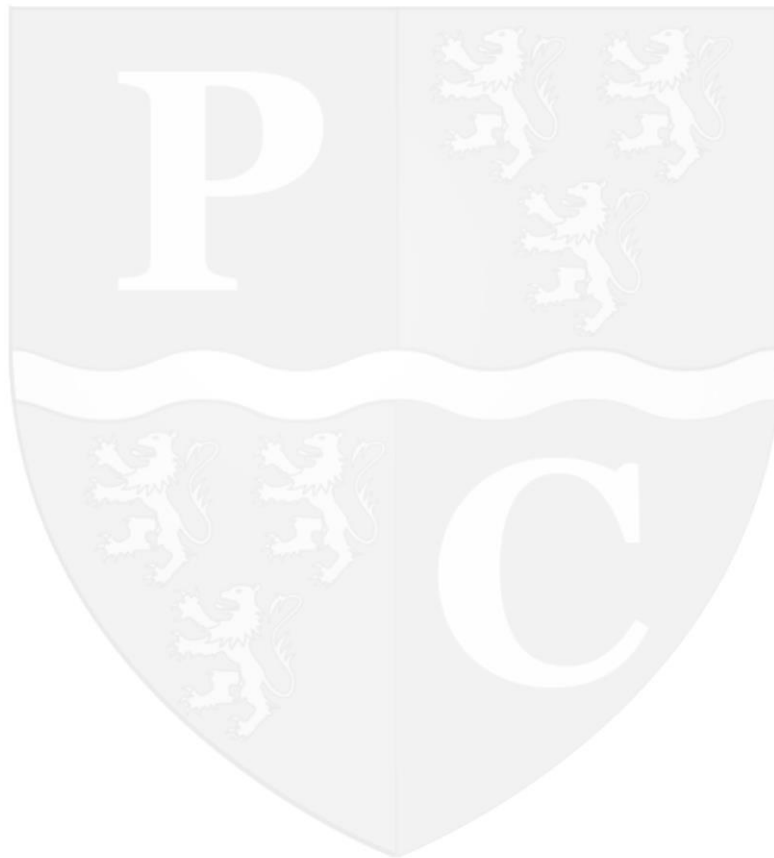
- Terminate the contract with one supplier who posed a number of serious risks including a risk of insolvency, of having poor certification practices, poor worker facilities and of offering cheap substitutes of our client's products to competitors;
- To address certification issues with a second partner;
- To approach an indirect supplier to purchase a key component directly from them in order to avoid over-charging and to diversify their partner and supply chain network;
- To move from a 2% inspection framework to a 4% inspection framework to detect and deter 'product fade';
- To approach other suppliers to develop relationships as a business continuity measure should a present partner fail to deliver or the relationship becomes problematic;
- Negotiate for shorter turnaround times by citing competitors' times;
- To seek out a fifth partner from a list provided by our analysts to act as the final assembly point for the products in order to diversify the process and ensure that no one partner can use assembly as leverage in future negotiations or disputes.

Conclusion:

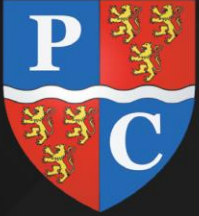
A company's supply chain web can be far more complex than first meets the eye. A comprehensive analysis of Supply Chain Risk will provide valuable insights into both effective business continuity strategies for turbulent times and potential existing opportunities for achieving new efficiencies and savings.



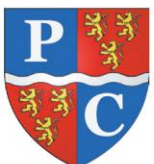
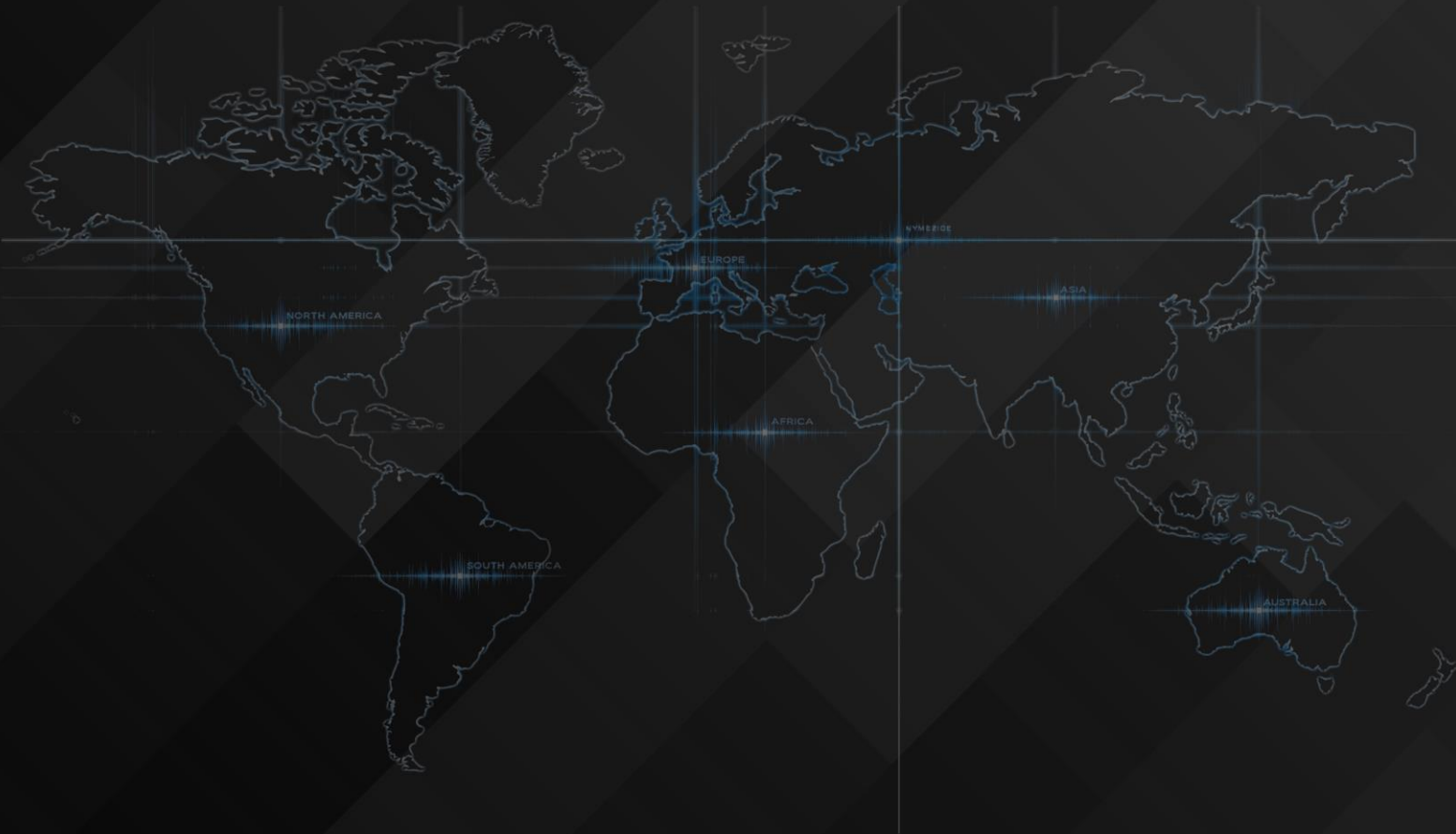
Pozières Consulting Inc is a Political Risk Advisory firm, providing bespoke analysis and business intelligence through our worldwide network of analysts and sources. We work with clients to identify, analyse and contextualise strategic Political Risks and turn them into tangible, actionable business insights. We utilise a combination of in-depth thematic research, innovative analytic tools and tailored business intelligence gathering to provide a bespoke service to clients. For comprehensive Political Risk advice and a confidential consultation, contact us at info@pozieresconsulting.com



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