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A must-read book for OEMs considering the outsourcing of product components to China

The unique career of an American in China details his manufacturing misadventures in “Poorly Made in China”

This review, by Shannon Wetzell, Senior Editor, *Modern Casting*, summarizes insider Paul Midler’s riveting account of the gaming tactics of major segments of China’s production supplier economy in 2009. One anecdote:

A large Chinese supplier had turned his business into a game. The terms of each deal were negotiated at the start of the project, and then the factory went on a hunt, looking for savings. The first price the Chinese manufacturer quotes is only meant to get its foot in the door, even when it means no money is made on the part. After a relationship is established, the manufacturer often finds ways to make a profit through the degradation of the product.

While the author points out flaws in Chinese manufacturing, he does it with the affection of someone who wants to see China prosper.

Paul Midler graduated from college with a concentration in Chinese history and has spent many years in China connecting foreign customers with Chinese suppliers.

Midler says Chinese business owners find ways to become profitable, even if those ways don’t jive with how America does business. Some lessons of caution should be learned, but also lessons of competition.

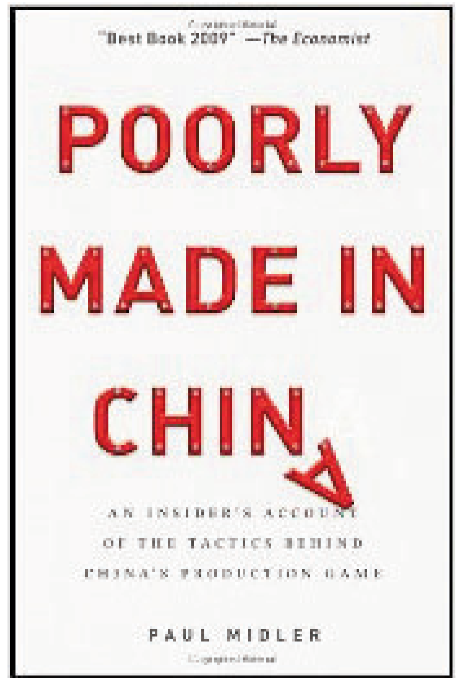
Behind “Too Good to be True”

In the U.S., a company buys a product for $1 to sell it for $2. A Chinese manufacturer produces a part for $1 and then sells it for $1, and Midler, who worked as a go-between for American and European companies with Chinese factories, explains how it makes money in these too-good-too-be-true scenarios.

First, Chinese manufacturers will produce the first series of products strictly to sample but then start cutting corners on quality to reduce its manufacturing costs, according to Midler. Second, the manufacturers use their experience with American companies to prove to other prospective customers they are a reliable supplier. This second wave of customers will be quoted higher prices than the initial customers. Third, Chinese suppliers know it is difficult to set up importer-supplier relationships with other factories and they use that leverage to increase prices with their first customers. Customers can be in a tight spot and need their product quickly, so they will deal with the price increases rather than suffer four to six months of finding another factory and establishing a new relationship.

Constant Battle, Shrinking Margins

Midler worked with dozens of American and European companies and hundreds of factories in China. From his account in *Poorly Made in China*, customers and manufacturers were involved in a game in which quality and pricing issues were a constant battle, most often lost by the customer with profit margins often erased. Such American customers, and even prospective buyers faced with obvious signs that entering a



contract with a particular factory would be a bad decision, chose not to return production jobs to their previous U.S. source.

As an explanation of this outcome Midler offered the statements of one of his clients referring to his management: “Look, these guys want the deal to happen. There’s nothing I can do about it. I’ve got the CEO of my company talking to everyone about how China is the future, and there are all these other guys in the office who are counting on this deal.” Midler goes on to explain: “The deal stank; they all knew it,” yet they wanted to move forward anyway.”

The knowledge conveyed by this uniquely positioned author can be valuable to any OEM considering offshore sourcing.

This article is largely excerpted from the review of the book, *Poorly Made in China*, which appeared in the March 2010 issue of Modern Casting magazine, published by the American Foundry Society.

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