

Tricks of the Trade

Shipping work halfway around the world is risky. A good middleman can make the move pay off.

BY BARNEY GIMBEL

DAVE MUDRICK, PRESIDENT OF Lasergifts.com, a distributor of personalized redwood pens, silver keychains and the like, knew something was up when his competitors started cutting their prices sharply. After all, he and his rivals typically used the same U.S. factories. He nosed around and learned they were outsourcing to China. He knew he had to follow suit. "It was a scary thought," Mudrick says. "Send money abroad and hope some product arrives a couple months later."

It's easy to understand his reluctance. Although it sounds great in theory—go to China and cut production costs by two thirds or more—doing business halfway around the world is difficult. There's a new culture to navigate and a higher premium on picking the right partner, since there's virtually no court system to enforce a contract. That has led to a booming business of middlemen; there are now about 100,000 of them who promise to help companies outsource to the Far East.

Their ranks include Mike Genung, founder of Global Trade Specialists, who helped Mudrick. Genung started working in China in the early 1980s, helping an

American machine-tool company make products there. Today he typically takes detailed plans for clients' products, asks contacts at various factories for bids and then oversees quality control and shipping. Fees for people like Genung can run more than a 10 percent markup over what the factory is paid. A cheaper option is to hire a consultant just to find the factory, typically for a fee of 3 percent of the value of the goods. The details are left to the client. For about \$600 a day, the U.S. Commercial Service, part of the Commerce Department,

can help organize your trip and set up contacts.

How do you find a consultant? Mudrick Googled "Chinese manufacturers," and the search led him to Genung, whose reputation he checked out through references. You can also ask your local manufacturer's association for other companies that have gone this route. Another tip: be specific about what needs to be done. Genung remembers receiving more than \$100,000 worth of steel pins that were rusted because he hadn't specifically told the factory to wrap them for the trip across the Pacific. Mudrick has had better luck: he cut manufacturing costs by 70 percent, and his sales have quadrupled to more than \$2 million a year. "We wouldn't

be in business if we hadn't gone to China," he says. His only worry now? That the Chinese will start competing against him directly, distributing the small-batch personalized items he sells from his Web site. It's probably only a matter of time. ■



Do's and Don'ts

Of all the business gurus offering tips on China, one of the sharpest is Uncle Sam. For example:

■ **DON'T ASSUME** you have to pay bribes—many Chinese now understand that this is a criminal offense for Americans.

■ **DO DEMAND** a big down payment of about 70 percent if you're selling anything in China or you'll look like an easy mark who doesn't get this cash society.

■ **DON'T BANK** on promises of state subsidies or other incentives—they have a way of disappearing without warning.

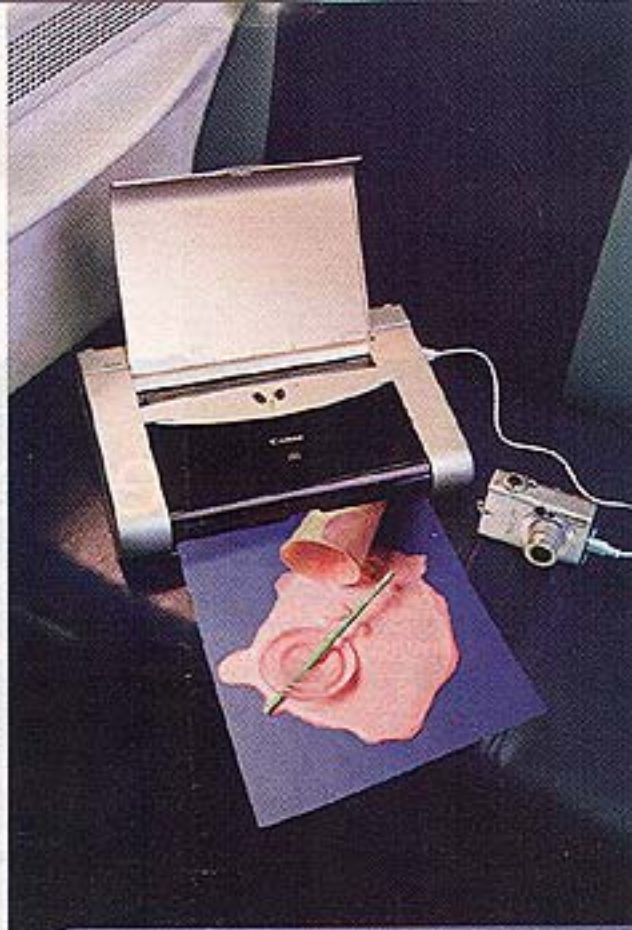
■ **DO FOLLOW** the written rules—local officials may urge you to ignore national laws, but Beijing may enforce them later on, which will cause endless headaches.

■ **DON'T TRUST BLINDLY**—make sure your partner is not a front and has a real financial interest in your success.

SOURCE: U.S. COMMERCIAL SERVICE

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