



Pier Components LLC

303 South Hill Drive Middleburg, PA 17842

Phone: 610-814-0697 • Fax: 610-814-0699

Web: WWW.PIERCOMPONENTS.COM

Improving Your Profitability by Buying Overseas

By Fred Piermattei

President, Pier Components, LLC

Improving Your Profitability by Buying Overseas

The number one reason why companies purchase overseas is to improve their profits. The overseas markets in countries such as China, Taiwan, Korea and India have tremendous possibilities that many U.S. companies are either currently taking advantage of or are researching possible future purchase transactions.

IS IT RIGHT FOR ME?

Evaluate your production costs. This will tell you where the majority of the expense to produce is assigned pertaining to your end products. Is it in raw material, labor or overhead? You should also evaluate the end result and ask these questions:

Will purchasing overseas free up labor and machine time to take on other projects?

Do my competitors have the advantage because they purchase overseas?

Will I be able to gain a larger market share by increasing your profits while adjusting your selling costs to be more competitive?

Once you know where possible savings in your production can be had, you can start to evaluate suppliers abroad. As a guide, the more labor intensive the part the greater the savings.

FINDING A RELIABLE SUPPLIER

You simply cannot overestimate the importance of evaluating potential suppliers. This is the most important research work you can do before orders are placed. Anyone can find an overseas supplier, but how reliable that supplier is can be a completely different story. There have been many nightmarish experiences of transactions gone awry from overseas suppliers. However, most of those bad experiences could have been avoided with the proper due diligence prior to placing the order.

As stated previously, anyone can find a supplier and most likely you will find someone to accept your target price. But that is only the beginning. Will your shipment arrive on time? Will it be to specification? Will the quality be as expected? Is the price you contracted the job for the actual cost? Without proper research up front, the answer to most of those questions is **NO**. The most important thing to remember is to never assume anything. If you have not taken steps to prevent disasters such as late shipments, poor quality, scheduling and shipping details and costs, disappointments and surprises will occur.

Finding potential sources can be done through trade publications such as the *Thomas Register*, or by researching on the Internet. Another means is to contact a country's trade consulate to look for potential manufacturers.

As mentioned earlier, proper research is needed on the supplier. Get references and check them thoroughly. Find out how their quality is rated. Do they have a quality assurance program in place? Determine their reliability with shipment dates. Know what products that they specialize in and what products they do not. Do they guarantee their shipments? How do they handle rejected shipments?

Price is not everything, because it means nothing if you do not have the parts when you need them or if they do not meet your specifications. Be sure to always demand first article approval prior to production before your purchase order becomes valid. Remember that this process might take several submittals, but it eliminates some surprises when you receive your shipment.

DEFINE YOUR TERMS

Another extremely important element is terms. Make sure that you understand all your liabilities and responsibilities. Most suppliers that you contact will tell you that you have to transact on a L/C (Letter of Credit). Some will tell you that you need to put a percentage down at the placement of the purchase order and pay the balance prior to shipping. However, there are a few well-established suppliers/importers that will give you terms without an L/C or an upfront payment depending on your credit history.

Understand and define the method of shipping. Negotiating the shipping terms is an important part of deal. Are your terms F.O.B. (freight on board) C.I.F. (cost, insurance and freight), etc...? For example, unless otherwise agreed, most of your quotations will be F.O.B. from the port of ship. A purchaser may not realize that even though your initial quotation from a supplier seems great, you may still have another 10% to 30% additional in shipping costs and duties. Always try to negotiate F.O.B. or C.I.F. to a shipping port closest to your location. You will also need a customs broker to clear your shipment. A good supplier and importer will include all those costs--as well as any duties--into your quotation so there are no hidden or unexpected costs. Remember that a good, reliable supplier or importer will make your purchasing overseas as easy as purchasing goods domestically. They will clearly define your liabilities and responsibilities, including: quality control, shipping schedules, terms and costs involved, as well as having a good track record as a reliable supplier.

CONCLUSION

If you follow the proper steps for guidelines in oversea purchasing you should be able to build lasting and trusting relationships that will in turn develop into respectable profits and make your company more of a competitor in the marketplace.

ABOUT THE AUTHOR

Fred Piermattei has lead overseas purchasing programs for major U.S. manufacturers before forming Pier Components, LLC. More information about Pier Components is available at www.piercomponents.com or by request. Fred can be reached at fmp@piercomponents.com