

The Importance of Due Diligence

Lisa Goodhand, Director of China operations

There are no short cuts to success in China, and due diligence should be the first step for any company hoping to make inroads in this lucrative market writes China Blueprint Director, Lisa Goodhand.

It's a growing trend for many established Australian companies these days to skip the middleman and take operations directly to China in order to remain competitive in the market. Improved communications and the World Wide Web have made this easier. However, no company operating in China can afford to cut costs by skimping on proper due diligence. In the long-run it could save your business.

The principle of due diligence is exemplified by the case of an Australian entrepreneur, who for cost reasons, decided to take the manufacturing of his new invention direct to China. Using the Internet he short listed a number of Chinese manufacturers and upon inspection, chose a company which offered a competitive price, had a flashy showroom and website and boasted "Australian experience". For the Australian businessman, this was effectively his version of due diligence.

Fortunately, he had the good sense to seek independent advice. After employing the services of China Blueprint it was revealed the Chinese company in question was not a manufacturer, but a trading company and in lieu of a factory, work was being conducted from the home workshop of an associate. Here staff made goods with limited tooling, no regard for OH&S and definitely no quality control processes.

This case study highlights potential risks when due diligence is neglected:

1. The intellectual property of the client's design could not be properly protected because the manufacturing entity could not be clearly identified;
2. Whilst the supplier may have been able to produce a reasonable sample there is no guarantee that they can and are capable of manufacturing the goods on a mass production scale; and
3. There is no quality control process, meaning that the goods may not necessarily be made consistently or checked for compliance.

Whilst these are only a few of the potential problems that can occur, they highlight the dangers of dealing with unknowns. Our recommendation is that if you intend to import from China, don't just throw your money around and hope to win the lottery - be prepared to spend your money on appropriate due diligence, a business plan and take the time to devise a risk management process. 'Cultural differences' is not an excuse for when things go wrong in China and problems can be easily prevented with proper preparation.

For more information on the importance of due diligence in China visit the China Blueprint website: www.chinablueprint.com.au or contact Lisa Goodhand directly in Sydney on T: +61 2 9267 2933