



Guided Imports

Product Validation Guide

By validating your product, you'll be able to have a fairly accurate estimate of the product's landed price. You'll also know every cost that goes into getting your product produced, as well as have a very solid understanding of your product requirements, such as which certifications might be needed, and any import/duty fees associated with the product.



Before You Start

You're about to learn a process of developing a detailed manufacturing cost analysis on an item. In order to do this properly, it is crucial you understand your product and have a clear idea of what specifications you intend to include in your product.

The more accurate you can get with your specifications, the more accurate you'll be with your product validation. When we validate products for our clients, the clients who have clear specification sheets virtually always find greater success in the long run than those who get lazy with their requirements.

So, know exactly what product you're planning on manufacturing. Know the material used, the size, shape, everything! Once you have this, we can start with the first step.

Step 1. - Selecting Factories for Validation Estimates

In order to obtain estimates, we need to rely on a small number of select factories. These are going to be the factories we compile data from to build out our estimations.

The most critical step here is building a small list of factories of which you can quickly determine the qualifications.

Ideally, you'll be looking for the following types of suppliers to obtain information:

- 1 - Trading Company
- 1 - Small Sized Factory (less than 100 employees)
- 2 - Medium Sized Factories (100 - 200 employees)
- 1 - Large Sized Factory (greater than 200 employees)

How To Find Them:

I am not a huge fan of relying solely on Alibaba. Personally, I find Global Sources to be a much more reliable source in terms of locating qualified suppliers, as they tend to be diligent at ensuring the suppliers they offer meet a certain level of quality. Alibaba however, tends to have a greater selection of factories, which can be good for the later stages of compiling a large list of suppliers, but for product validation, I start with Global Sources.

1. Go to your favorite supplier database (Global Sources, Alibaba, Made in China, etc.)
2. Head to the advanced search setting to make your search as specific as possible regarding the product. Be sure to fill in as many filters as you can. The reason for this: we need to talk to suppliers who are detail oriented and can answer some basic questions quickly. If a supplier takes the time to fill out their listing details, there is a greater chance they'll be easy to talk to for validation purposes.

3. As you go through the list of your results, begin picking out potential suppliers that can be used to fit one of the four types of suppliers mentioned above.
4. You can use additional filter results, usually located on the sidebar of most database sites, to continue to refine your list of selections.
5. Once you have your five suppliers selected, you might find it easier to organize them in a spreadsheet.

Additional Factors That May Help You Select the Best Validation Suppliers

While you should be able to obtain somewhat accurate numbers by selecting any supplier that falls within one of the mentioned types, you're going to want to further refine your estimates so they are as accurate as possible. Here is a list of additional qualifications that should be easily found on each supplier's product page or company profile page:

- Their main export market should be the same as yours
- Their main products should resemble the product you're looking to have manufactured
- Their profile pages should be well organized and appear as customer friendly as possible
- They should have photos not only of their products, but also of their factory, achievements, customers, and trade shows they've attended

Step 2. - Reaching Out to Your Selected Factories

This might be the first time you'll be reaching out to factories. If it is, don't be worried: you possess all the necessary information to come across as a serious buyer.

Here are the key points of information you're going to want to gather from factories:

1. Detailed quotation sheets - while it is common for suppliers to be hesitant to give these out, your interest as a buyer should be enough for it not to be an issue.

- a. From here, you should be able to obtain the important information: product specifications, carton size, carton weight, number of products per carton.
2. Required certifications needed to import into your country
3. H.S (Harmonized System) Code
4. Make a list of all the detailed questions these suppliers ask you.

For items 1 - 3, these will all be used to obtain pricing estimates. I will explain how to do this in step 3.

Item 4 is important in order for you to come across to future suppliers as being knowledgeable of your product, thus validating you as a qualified buyer.

In the event that factories ask a question about a specification that you are unsure of, now is the time to act as the "unprofessional, professional artist." But instead of saying "err uh... whatever is the most popular," engage with the sales agents and try to get an idea of the different options, otherwise you run the risk of being dismissed as an unprofessional buyer, causing you to lose both credibility and negotiating power.

In your specification sheet, I mentioned that it is a good idea to come up with an order quantity range. Having a range will allow you to determine the best quantity to purchase. Since China works on scale, meaning, the larger the order quantity, the lower the price, your profit margins can change depending on your order quantity. Not only that, but shipping works the same way. The more you ship, the lower your cost per unit.

It is worth mentioning that factories don't like giving price lists across multiple quantities and specifications. Because of this, your requirements need to be as detailed as possible. Spread your order quantities out. When reaching out to your list of five suppliers, you will want to use the higher numbers for the larger factories, lower quantities for the smaller suppliers and middle numbers for the medium sized suppliers.

Having organized all of this information so you know which supplier to talk to and what your intended order quantity is for each supplier, it is time to reach out to them directly.

This isn't rocket science, and if you look in various group discussions, guides and courses, you'll be given scripts on what you should say to the factories.

In my opinion, messaging suppliers is similar to sending cold emails to potential customers. Just keep it simple, tell them what you want, how much you want and where you'll be selling. Provide some form of call to action for them to respond to if your listed specifications sound like something they can handle and they want to hear more information about your order.

(Notice I'm purposely not providing a template here as I am hoping you've learned the necessity here is to simply come across genuine and serious.)

These are not native English speakers either, keep it simple and you'll be fine.

Step 3. - Obtaining Pricing and Requirement Estimates

After you reach out to your five selected suppliers, your communication should begin and quotations should start rolling in.

Begin organizing the information you've obtained.

Pricing Organization

For pricing, if multiple suppliers provided different prices for the same order quantity, take the average. Ideally, you should notice that the larger order quantities equate to lower prices, and vice versa.

In the event this is not the case, there are a couple reasons that could explain why.

1. The larger factories required orders that were much larger than your requested order quantity. So, instead of rejecting your order, they inflated the price.

2. One factory is quoting a much higher price with either the expectation that you will haggle it lower, or they are simply expensive.
3. The products you were quoted were not exactly the same. Minor changes could lead to price differences.

Please note, I am not mentioning anything that has to do with incoterms at this time. If you are unsure what they are, don't worry about it yet. When we begin looking at the shipping options, we'll discuss these trade terms.

With these potential reasons explained, it is really your decision on what to do, whether you'll want to accept the potential inaccuracies or find new suppliers. .

Here are some potential options.

1. Find another supplier to use for pricing estimation.
2. Take the high price into account and use that as your high number figure.
3. Speak with the supplier about their price difference when compared to others and ask if they can offer a reason.

Once you have all of this sorted out, you'll want to create a general high low pricing profile. You'll also want to be able to list the estimated prices per order quantity.

Product Requirement Organization

As you're speaking with the suppliers and asking them the necessary questions we've highlighted, you may begin learning about product requirements. It is recommended to take these into account for accurate pricing estimations.

If two factories mention you'll need a compliance certification, such as FDA, then there is a good chance it is required. For compliance requirements, these requirements are not set by the factory, rather by the country in which you intend on selling your products. So if one factory tells you their customers don't have an FDA certification, and other factories say you need it, there is a good chance you need it.

As you begin understanding compliance requirements, you may want to speak with all the factories again, informing them of this requirement and asking if they can provide you with a quotation on obtaining it. Be sure to add these costs and factor them in.

Don't worry, if you are still unsure about compliance requirements after speaking with your selected suppliers, I'll be explaining how to get this required information for free, from licensed professionals.

Besides compliance requirements, there are also production startup fees, moulding and tooling fees, that might be required.

Some factories might have different requirements than others. If your product has customizations that require the creation of a new mould, the price can differ. Taking the price from all factories and creating an estimate is the easiest way to factor in these costs.

Let's review. By now, you should have the skills to obtain the following information.

1. Estimated high and low pricing across a multitude of product quantities
2. A general understanding of additional product specifications you may not have considered
3. A general idea of necessary compliance requirements
4. A general idea of startup fees, mould fees, and customization fees

As you do this more, you should be able to obtain this information in about three days or less.

Now it is time to get estimated shipping prices!

Step 4. - Obtaining Shipping Quotations

In this step, I am going to explain how to find freight forwarders, how to request shipping quotations, how to find out import duties and taxes, and how to verify any compliance requirements.

People say shipping is hard. It is not. The reason why I am not going to go into immense detail is purely because I am trying to provide you with only necessary information, and not fill your mind with useless information you can learn by doing.

There are four main types of shipping that I've highlighted below:

1. Air - Express

This is the most common for small quantities. It is fast, shipped usually by UPS, DHL or FedEx. It is the most expensive option, however the service is door to door and there is no additional paperwork.

2. Air - Cargo

This is the least expensive option for air shipping. Air shipping in general is incredibly expensive and should be avoided at all costs, but at times, due to its speed, it is necessary. Normally Air Cargo is port to port, meaning you or an additional logistics company will need to pick the goods up at the airport. For cartons that are too small for LCL, cargo is a potential option.

3. Sea - Less Than Container (LCL)

Shipping containers come in various sizes, but sometimes orders don't fill an entire container. In that event, you can share a container with other shipments. This is the most expensive sea shipping option, but still much less expensive than shipping by air.

4. Sea - Full Container (FCL)

Depending on your order quantity, you might be eligible for FCL. If so, this is great because these are the most competitive rates.

Essentially, shipping by air is faster, more expensive and less work, and shipping by sea is slower, less expensive and requires some paperwork. But trust me, nothing too difficult.

Finding Freight Forwarders

Remember when you were sourcing four types of suppliers for your validation estimates? Well, you'll need to do the same for finding freight forwarders.

All forwarders specialize in different types of shipping, and while many are capable of multiple methods, you'll find better prices when finding speciality forwarders.

Freight forwarders can be found both locally via local Google searches, and also on an international level via both Google and supplier database websites.

For Air Express Forwarders - head over to Alibaba and search for a local Chinese forwarder. At this time, it is difficult to get listed on Alibaba as a forwarder, so the ones that are on there currently are worth looking into.

Type 'Freight Forwarder' into the search bar and a lot will come up.

For Air Cargo Forwarders - you can use the ones you found on Alibaba, but you might also want to look at ones with offices in your country. For this, you can perform a Google search with your country, China and freight forwarder in the search bar.

For LCL & FCL - You can use the same method for cargo forwarders, but you can also search for some of the larger companies such as FlexPort, Livingston International, C.H. Robinson and DB Schenker.

Incoterms

If this isn't your first rodeo, feel free to skip this section. I'll briefly cover Incoterms. It stands for, International Commercial Trade Terms. They are short, three letter abbreviations that explain which party is responsible for which charges.

Wikipedia does a good job explaining them in detail, but for the sake of getting you filled in on the necessities, the only ones we're going to go over are FOB and EXW.

FOB - Free On Board - this is the most common term and essentially explains that the factory holds responsibility for the goods until they board the ship. This means

they need to pay for all export and loading fees, and you'll be responsible for everything else.

EXW - Ex Works - this term should only be used for goods being shipped via express. This term dictates that the goods are the buyers the responsibility the moment they leave the factories doors. Since there are often additional fees with everything outside of express shipments, you will always want the factory handling them on their side. But EXW is an easy way to save some money on your goods as the shipping to your local Chinese forwarder will most often be much less than the added price of FOB.

Contacting and Requesting Quotations

One of the more important things to remember when requesting a shipping quotation is to obtain the quotation in writing as an itemized quote. For more complex quotes, especially with sea shipments, there are multiple charges. When you obtain them, you might want to begin Google searching what each itemization is, so you have a better idea of what the charges consist of.

When you reach out to these forwarders, they only need some basic information to give you a quotation, and since you've already obtained the necessary information from your selected factories, it should be easy for them to quote.

You want to provide them with the following information:

- Item name
- H.S. code
- Total quantity
- Total number of cartons
- Carton height
- Carton width
- Carton real weight
- Carton gross weight
- Incoterm
- Destination
- Origin

Just as you were instructed to approach each supplier with a single order quantity, the same should be done with shipping companies. The only difference, once you begin speaking with them and building a brief rapport, you should be able to get them to provide you the quotations for additional quantities

For Air Express, if you are on Alibaba during China business hours, you should be able to chat with someone on the Alibaba chat feature and get the prices quickly.

For all other methods, after you find a forwarder, you'll probably want to email them, so they can respond to you with a detailed quotation.

To email them, simply tell them that you're interested in using them as your forwarder for a shipment you'll have ready in about 30 days. Ask them if they could give you an itemized quotation on the following shipment.

Here you will provide the above listed specifications.

Most of the forwarders will respond to you telling you that your order date is outside of their quotation validity date, but that is okay. Shipping prices fluctuate, but not enough to ruin your estimates.

As the quotations begin coming in, you'll start to have a better idea of your landed cost. Your landed cost is everything factored into the pricing, giving you a final number that you can use as an understanding of the total cost of the order.

Obtaining Compliance Requirements, Duties and VAT

After you reach out to different forwarders and back and forth communication has been established, it is time to utilize the bigger companies' in-house customs brokers as a free way to obtain compliance requirements and import fees.

After spending time to review the quotations, ask the forwarders who quoted you sea prices if they can have their customs broker help you determine compliance requirements and imports duties.

After a couple of days, you should be receiving responses from their customs broker explaining the requirements they have found.

Congratulations, you just saved yourself a bunch of money by not having to hire a customs broker to get this information for you!

See if the information equates to what your suppliers were saying. If you were informed of a requirement by the customs broker that was not listed by the factories, be sure to let them know about the requirement, and have them look into the costs of obtaining it.

Step 5. - Organizing Your Data

You now have all of the key pieces of information to develop an accurate product validation estimation.

With your obtained information, I've always found it helpful to develop pricing tables. With order quantity along the X axis, and shipping cost along the Y axis, you'll be able to build yourself a very simple diagram to determine which order quantity and shipping method is ideal.

Now, begin playing with the numbers. Feel free to incorporate additional costs, such as Amazon's FBA calculator to determine the validity of your product.

What happens if it turns out that my product does not leave any room for profit?

There is no magic pill that fixes this. Your options are to either figure out a way to lower the costs using the information you've gathered from the factories and understanding your product. You can increase your quantity to see if the overall price comes down. But ultimately, if the numbers reveal little to no room for profit, regardless of what you do the product is probably a bust.

The whole validation process should have taken about three days. When you get good, you could validate multiple products at once. Regardless, spending three days to rule out a product is a lot better than wasting more than a week or two by neglecting to validate your product and go straight to the sourcing stage.

Having this information, along with incredibly detailed product specifications and requirements will allow you to begin sourcing suppliers who will see you as a truly prepared buyer, and someone that will be easy to work with.

Congratulations! By validating a product, you are now not only able to determine if the product itself is a viable option for you to source, but you are now fully prepared to begin sourcing suppliers.

How Long Does This Take?

In theory, practice makes perfect. Once you get comfortable with the process of supplier validation, you should be able to receive all quotations back within approximately three days, and begin filling out the validation sheet.

As you work on more orders in China, you'll begin to develop relationships with various freight forwarders, which will allow you to producing shipping tables to quickly calculate shippings costs, thus saving you time in having to wait for forwarders to reply back.

When factoring in the notion that nobody should be reaching out to less than 50 suppliers during the sourcing stage, three short days of validation will end up saving you countless days and resources.

Pro Tip: Practice validating multiple products at once. This will streamline your ability to identify new products and help you grow faster than ever!