Barriers when Selecting a Contract Manufacturer in China

A Study of SMEs in the toy industry

Bachelor Thesis
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Year: 2019
Program: International Sales and Marketing
Abstract

Production outsourcing to a manufacturer has become a very common thing for small and medium-sized enterprises (SMEs) as a manufacturing choice. Offshore manufacturers provide cheap and skillful labor which is what companies need to make a decent profit and make the products affordable to the end consumer. These manufacturers are called Contract Manufacturers (CM), which is what this thesis is about. However, searching and choosing the right manufacturer can be a challenging process, which can be followed by difficulties and obstacles.

This paper explores the process of how these SMEs in the toy industry select and find their contract manufacturer, identify the type of barriers they encountered, the process to overcome and solve those difficulties, and what recommendations SMEs offer to prevent those obstacles for those who want to take the path of dealing with an offshore contract manufacturer.

Moreover, personal interviews with SMEs in the toy industries were conducted to investigate the purpose of this thesis. These companies shared their experiences with dealing with contract manufacturers and offered valuable recommendations to overcome those troubles that arise during the selection process of a contract manufacturer.

One of the major findings was the communication barrier, which arose when the companies had to outsource their production to manufacturers in China. However, some used a middleman to help with solving this issue and others had a representative that can speak the language.
Acknowledgment

I would sincerely like to thank the employees of the multiple toy companies that I have either interviewed by phone or contacted through email. A very special thank you goes out to the participating companies for taking the time to participate and answer the questions. I would also like to express my sincere gratitude to Dr. Tomas Nilsson for his continuous academic support throughout the year.

Getting through my bachelor’s thesis required much more than just academic support. Most importantly, none of this could have happened without my wonderful family members’ support. It would be an understatement to say that I would have been lost without their presence and support in my entire life. I would like to thank them very much for their constant love, care, support, and understanding during the whole process of working on my bachelor’s thesis.

This Thesis paper stands as a testament to my family’s unconditional love and support.

Thank you

Duaa Al-Azzawi
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1 Introduction

Many industrial firms in the western countries outsource their production to factories in low-cost countries, for example, to China (Giannakis et al., 2012). In this thesis paper, the focus will only be on China as an outsourcing location. China is one of the most attractive destination for many business, especially since it provides the required factors for outsourcing, such as production cost reduction, skills and manpower, infrastructure and country risk (Pawar & Rogers, 2013; Wu, Wu, & Zhou, 2012 cited in Lee, et al., 2017).

Outsourcing is when a company gives another company the responsibility to take care of part of their business through a contract (McCarthy and Anagnostou, 2004). These firms outsource the manufacturing process to an external supplier, a contract manufacturer (Han, Porterfield and Li, 2012). The designs and ownership of the products produced by the contract manufacturer are preserved by the original equipment manufacturer (OEM). The contract manufacturer provides the required labor and skills to manufacture the products for SMEs (ibid). However, issues might arise along the process of selecting the right contract manufacturer (Hanes, 2013; Giannakis et al., 2012). These SMEs can encounter expected and unexpected difficulties that might hinder the production process of the whole business (ibid).

Due to the competitive nature of the marketplace and the increase in customers’ demands, many companies are forced to use outsourcing as an essential business strategy (Kerkhoff, et al., 2017). Outsourcing is a tool to gain competitive advantage, which plays an important role in the increasingly networked economy (Han & Bae, 2014; Kang, Wu, Hong, Park, & Park, 2014 cited in Lee, et al., 2017).

According to Kazmer (2014), outsourcing provides businesses convenience since production requires millions of dollars to invest in equipment, labor, and technology for companies to compete in the market. SMEs with limited resources and expertise are not capable to carry this burden solely by themselves (ibid). Outsourcing allows companies, like SMEs, that lack enough finances to enter the marketplace and compete with their larger competitors effectively (ibid).
There are several motivations for outsourcing manufacturing to a contract manufacturer in China (Kerkhoff, et al., 2017). According to Jia et al. (2014, p. 290), cost-saving is a common reason for companies to production outsourcing to China, however, it is also the main reason for some companies. This means reducing the total cost of production, raw materials, labor, and overhead (Bygballe et al., 2012; Lemoine, 2010; Kamann and van Nieulande, 2010). According to Han, Porterfield, and Li (2012), the cost reduction provides OEMs the flexibility to adapt to the unpredictable market without any high risks (Towers & Song, 2010, p. 541).

Another motivation is that China has certain skills, experience, and technologies in certain fields that might be even more developed than the Western countries (Jia et al., 2014). Chinese manufacturers focus on their core competencies, while also achieving mass production at low costs (Wang et al., 2011 cited in Kerkhoff, et al., 2017).

Despite the advantages of outsourcing production to a contract manufacturer, there are certain problems that come along the process for the outsourcer to consider. One of the barriers that might be encountered includes dealing with foreign factories, which means the cultural differences (Salmi, 2006; Enderwick, 2009).

The language barrier between the Chinese manufacturer and their clients is described as the main challenge by Towers & Song (2010). Dealing and communicating with a contract manufacturer that doesn’t speak English well, or doesn’t have the knowledge of the same terminologies that are used by the outsourcing company can be problematic for the companies if they must explain to the contract manufacturer certain details required in the production process, which also can lead to problems in the quality of the production (ibid). Some are unwilling to communicate ideas clearly as in the Western way, which represents another communication problem (Jia et al., 2014).

Moreover, another barrier can be the hidden costs that may appear after making a deal with the contract manufacturer (Gonzalez et al., 2006). Those hidden costs might cause the production cost to become higher than expected (ibid). The OEMs need to be cautious during the selection process (ibid).

As for the U.S., manufacturing expenses and labor costs are relatively high (Kazmer, 2014). Thus, countries like the US, the manufacturing of highly valued products, or is known as “advanced manufacturing”, such as solar cells and hybrid vehicles are given
priority over the manufacturing of commodity products such as toys (Hausmann, 2013 cited in Kazmer, 2014). Although the manufacturing of toys is not located in the U.S., the industry has a large demand in the market. According to the Toy Association and NPD Group, Inc. annual report, the toy industry annual U.S. sales data for 2018 shows that the U.S. toy market size is approximately $28 billion. Many of those toys are produced in factories in China (IBISWorld, 2014 cited in Chen, et al., 2016). China has a dominant position in the world with the production of around 70 percent of the global toys and is the production center with more than 8,000 toy firms (ibid). According to China Briefing and as mentioned in Chen, et al. (2016), there are many contract manufacturers that provide manufacturing services for large and small enterprises from developed countries.

The toy industry is an excellent example of global outsourcing and offshoring trends with an increasingly competitive field that drives domestic companies to find the best low-cost solutions internationally (Lyles et al., 2008 cited in Chen, et al., 2016). These factors often lead to China as it is, according to the United Nations Statistics Division (2016), the world's largest toy manufacturing center in the world (ibid). Therefore, all the previously mentioned reasons lead the SMEs in the toy industry to outsource their production offshore to China.

The author of this thesis seeks to gain a better understanding of how the respondents perceive the situation and their view based on the problem. There are different sources provide information about this matter, however, the companies’ personal experiences and interaction can provide in-depth details that cannot be found in the literature.

1.1 Purpose

The purpose of this study is to identify the barriers that SMEs in the toy industry encounter during the selection process of a contract manufacturer in China.
2 Literature Review

2.1 The Interaction Approach

The interaction approach was originally developed by the IMP group in 1982. The interaction approach was re-examined again in the year 2000 to reevaluate whether it is still a valid model for business to business, which concluded that the model was valid by the beginning of the 21st century (Leek, Turnbull, and Naudé, 2000). The study found that the interaction process is still the same, as it involves two business parties interactions. However, the information exchange methods are different, as we have developed communication technology and the face-to-face meeting was less needed (ibid). The information and interaction are exchanged through emails, intranets, etc. Not having physical interaction and social exchange means not having the opportunity to build trust and personal relationships. This also leads to an increase in formality in their interactions, reliance on legal agreements and contracts and more complicated relationships to manage (ibid).

The interaction approach was used again in a book in 2009, Business in Networks, which was written by the same author, Håkan Håkansson, and a team of authors. This is the reason why the author of this thesis decided to use the interaction approach from the original source despite the fact that it was developed over three decades ago.

This approach focuses on the industrial interaction process between the buyer and the seller within a specific environment (Håkansson, 1982). This interaction process is the international marketing and purchasing process of industrial goods between two or more parties. There are several factors that were taken into consideration to build this model (ibid). The first factor is that the buyer and seller are both actively searching for potential buyers or sellers in the market. They make offerings that are ready to use to have control over the business deal process (Håkansson, 1982). The second factor is the nature of the long-term relationships that develop between the buyer and seller that typically become close and complex. These developments encourage the duties of the marketers and purchasers to focus on maintaining the relationship and handling the interaction process rather than making a direct sale or purchase (ibid). The third factor is that the buyer-seller connections turn into a set of duties that are expected by each side to be carried out. This type of relationship can include complications and cooperation (ibid). The
fourth factor is that the relationship is built during doing multiple transactions between
the seller and the buyer. However, the relationship can also be based on a single major
transaction (ibid).

The interaction approach model consists of four basic elements, which are:

1. The interaction process

2. The interaction parties during the process

3. The environment where interaction takes place

4. The atmosphere affecting and affected by the interaction

Each of these elements is subdivided to describe further in more detail (Håkansson, 1982).

2.1.1 The Interaction Process

As mentioned before, the buyer-seller relationship normally tends to be a long-term
relationship. The interaction process is divided into two parts. The first part is “Episodes,”
which deals with individual cases in a relationship, such as making and delivering an
order. The second part is “Relationships,” which deals with some long-term features of
a relationship and how individual episodes and long-term relationships affect each other.
(Håkansson, 1982). The first to consider is:
(a) Episodes:

The episodes take place between two parties in an industrial market environment. They consist of four exchange elements:

(i) Product or service exchange

(ii) Information exchange

(iii) Financial exchange

(iv) Social exchange

(i) Product or service exchange The interaction between a buyer and a seller usually involves the exchange of a product or service (Håkansson, 1982). Therefore, the entire relationship between the two parties is greatly affected by the qualities or features of the exchanged product or service. It is very important to ensure that the product or service meets the need of a buyer and that the features of a product or service can be readily specified. It is also significant to make sure that either party clearly knows the demand or capability of the other party. In other words, it is very important to eliminate uncertainties in the exchange of a product or service (ibid).

(ii) Information exchange Information exchange has some important characteristics. One of the most important characteristics is the content of information, which typically includes technical, economic, or organizational matters (Håkansson, 1982). The range and details of the information are also important. Information can be conveyed between the parties through personal or impersonal communication. Basic technical and/or commercial data are considered impersonal communication, whereas other types of data such as 'soft data' regarding, for example, the product use, the conditions or deals between the involved sides, or any general information are conveyed through personal communication (ibid). Lastly, the information exchange procedure level may differ according to the characteristics of the organization, and this can influence the interaction process and the relationship between the involved parties (ibid).

(iii) Financial exchange The importance of the relationship between two parties in economic terms is indicated by the amount of money exchanged. The inevitability to exchange currencies and the unpredictability in the exchanges over time are another important aspect to consider (Håkansson, 1982).
(iv) **Social exchange** Social exchange plays an important role in diminishing the unpredictability between the two involved sides, especially when these two parties are physically and culturally distant from each other or when their experience is insufficient. Short term difficulties can be avoided and their relationship throughout transactions can be maintained through social exchange. Most importantly, however, social exchange closely connects the two parties in the long-term period by building up mutual trust. The relationship between the two parties is based on mutual trust, and this trust can be developed through the exchange of the other three elements (Håkansson, 1982).

(b) **Relationships**

The development of long-term relationships is greatly contributed to by the element of social exchange as well as by the exchange of such elements as a product, service, money, and information. Both the buyer and the seller will develop clear expectations of their roles or duties by institutionalizing these exchange elements over a certain period. In the end, however, the built-up expectations between the two parties will lead to a situation where either of the parties does not pose any questions and make rational decisions (Håkansson, 1982).

The patterns of contact and the relationships between their roles in the inter-organizational context are developed consecutively through the exchange of information. Individual persons and groups of people with different roles in different departments can comprise the *patterns of contact*, and these patterns are an important factor to consider when analyzing the relationships between buyers and sellers as these patterns can, more or less, closely connect the two parties. The important thing to note here is that both the information exchange and the social exchange can help companies to work on such things as printed matter and the development of specification and to visit each other's companies before placing the first order or between individual orders that are spaced apart widely, without an exchange of product or money (Håkansson, 1982).

Adaptations are another important aspect to consider in the analysis of relationships. One party may make some adaptations in the elements they exchanged or in the process of their exchange. For instance, they may make adaptations in the exchange of a product, in financial agreements, or in the process of information or social exchange during the course of one major transaction or multiple individual transactions. These adaptations beneficially enable the party to reduce costs, increase revenue, and differentially control
the exchange. In a specific case, the whole relationship may be changed through adaptations. One party, for example, may not decide to give special products to the other party in order to keep a certain distance in their relationship instead of developing a closer or tighter relationship (Håkansson, 1982).

The involved parties may make adaptations unconsciously over time, but it is significant to consciously take a strategic approach to successfully manipulate the different aspects of adaptation. For example, it is important for sellers to strategically implement modifications to their product lines, price range, the process of information exchange, their organization structure itself, and so forth. Likewise, it is important for buyers to strategically make modifications to their product requirements, production process, acceptable price range, and so forth (Håkansson, 1982).

2.1.2 The Interacting Parties

Certain aspects of the involved parties play an important role in the relationship and the interaction process between the involved parties. The elements of interaction are not the only things to rely on. This includes the aspects of both the persons and their organizations and there, for example, position in the market, the offered products or services, etc. (Håkansson, 1982). Some of the major aspects are:

(a) **Technology** Technical issues play a critical role in the relationship between the seller and the buyer in B2B markets. The interaction process has a purpose, which is to connect a seller’s manufacturing technology to the buyer’s using technology. The aspects of the two technological systems, as well as their variances, make up the primary conditions for the interaction. These primary conditions affect the interaction process in different ways, such as the need for modifications, trust and contact style (Håkansson, 1982).

(b) **Organizational size, structure, and strategy** Size and power determine the parties’ position in the interaction. Generally, the larger the firm is, the greater the power it has over the suppliers and customers. The structure, formalization, and centralization extent of a firm affect the interaction process in different ways; this effect is visible in the type and number of the people involved. This can also influence the transaction, the communication pattern, the interaction formalization, and the products’ nature or functionality. The organizational structures can be the
foundation base for the interaction process in the short term, while the interaction process can influence the modification of the structure of the organization in the long term (Håkansson, 1982).

(c) Organizational experience The organizational experience can be from the current relationship and also from other similar relationships. Those experiences add to their knowledge about managing similar relationships. It can also impact how important the relationship is to the organization, and hence determine the level of their commitment to this relationship (Håkansson, 1982).

Those experiences that a company gains in a specific market will make them suitable for that market. In addition, the company's experience with international transactions will impact their desire and competence to have an interest in international relationships (ibid).

(d) Individuals The interactions normally involve two people, a seller and a buyer. However, there may be more people involved during the personal interaction process from different departments with different activities, functionalities, and roles. Each of the party's individuals has different capabilities, experiences, and motivations, which will impact their social interactions in different ways. Building a relationship depends on those individual interactions. Moreover, the main persons in the interaction and their role may affect future opportunities and developments in the relationship (Håkansson, 1982).

Attitudes and behavior towards certain buyers or suppliers are affected by the personal experiences of the persons. Those experiences create preconceptions of certain customers or suppliers, for example of those from a certain country (ibid).

2.1.3 The Interaction Environment

The buyer-seller interaction process needs to be analyzed in a broader context, which has the following five aspects (Håkansson, 1982).

(a) Market structure There are many similar relationships in the same single market domestically or globally and a relationship between a buyer and a seller needs to be regarded as one of those similar relationships. The market structure is determined by such factors as the number of buyers and sellers, the stability and change rate of the
market, whether the market is considered purely domestic or more global, and so forth. The proportion of buyers and sellers strongly affects any party involved, making them feel pressured to choose a certain counterpart in the same market (Håkansson, 1982).

(b) **Dynamism** A relationship between two parties is influenced in two contrary ways by the level of dynamism in the relationship and in the broader market context. The first is that the closer the relationship between the two parties, the easier it becomes for one party to anticipate the possible actions of the other party. The second, which is contrary to the first, is that the more dependent a party is on one or a limited number of relationships, the higher the opportunity cost becomes when manifested with regard to the development of other members in the market (Håkansson, 1982).

(c) **Internationalization** Both buying firms and selling firms are affected by the internationalization of the market in terms of motivation for building up international relationships. For example, a firm may set up an overseas sales division or an international buying team and try to gain specific knowledge in, for example, languages and global trading (Håkansson, 1982).

(d) **Position in the manufacturing channel** The position of a relationship in a broader manufacturing channel, which extends from a manufacturer to the final customer, is another aspect to consider. For example, manufacturer A manufactures machinery parts and sell them to manufacturer B; Manufacturer B uses the parts to make other parts and sells them to manufacturer C; Manufacturer C uses the parts to make machines and sell them to distributor D. In this particular case, several markets in the channel may affect the marketing strategy of A at different phases, and the relationship between A and C and the one between B and C as well as other subsequent parties will influence A's relationship with B (Håkansson, 1982).

(e) **The social system** Relationships between buying firms and selling firms are based on the broader environment, i.e. the social system, and the general attitudes and perceptions that exist in a particular social system can be significant hurdles especially when attempting to institute the process of exchange with a prospective counterpart in the global market. For example, the social system of a country may have a nationalistic policy of buying products from within the country, or there may be a general perception that buyers or customers of a country are not as reliable as those of other countries.
Currency exchange rates and certain regulations such as trade regulations can also be hurdles to overcome (Håkansson, 1982).

### 2.1.4 The Atmosphere

The relationship between the buyer and the seller is affected by the nature of the interaction and by the aspects of the involved sides. The main aspect of a relationship is the atmosphere of that relationship. The atmospheres can create advantages and disadvantages for the involved parties (Håkansson, 1982). There are two different reasons to have a close relationship with the counterpart, which is analyzed by the IMP group as:

(a) *The economic dimension* A firm may benefit from having a close relationship or connections with the seller or the supplier, which results in cost reduction in different ways for them. Transaction cost and production cost are some of these costs in which a firm can efficiently reduce its cost if they have a close connection. This closeness in the relationship allows them to cooperate with each other and make the production easier for both parties. The buyer can participate in developing or redesigning certain products and providing valuable technical and commercial information to the supplier about the demands in the market. This way they both benefit from the closer interaction by using each other’s resources, competence, and facilities (Håkansson, 1982).

(b) *The control dimension* One company having power over the other is an essential reason for having closeness in a relationship, which helps to increase trust and improves the firm’s ability with future predictions. In this type of a relationship between the involved parties are well aware of the power control. However, the early stages of this relationship may not be very clear to one party and an important element during the exchange episodes is to clarify. This way each party will develop an understanding of each other’s power in the relationship. This type of relationship is valuable to some in serving them with associate information from the other party. However, if a firm becomes independent largely on the other party, they might become vulnerable to its counterpart (Håkansson, 1982).

In conclusion, the main purpose of a close connection or relationship is to gain economic benefits in forms of cost reductions in different areas. The challenge is to find balance in the power relationship and not depend solely on a single party (Håkansson, 1982).
2.2 The Process of Selecting a Contract Manufacturer (CM)

The contract manufacturers are “contracted businesses” which are providers of goods and services while collaborating with other providers who also provide goods and services as a network of business partners (Chan and Chung, 2002). Contract manufacturing is when a manufacturing firm decides to outsource some of its manufacturing processes to an outside supplier, which is done through a contract between the original equipment manufacturer (OEM) and the contract manufacturer (Lee and Tang, 1998; Kim et al., 2002; Kim, 2003). This agreement gives the OEM the right to preserve their ownership of the products, while the contract manufacturer receives the orders from the OEMs to provide labor and skills to manufacture the requested products (Han, Porterfield and Li, 2012). This type of business model gives the OEMs the benefit of reducing cost and improves the quality of the product (Han, Porterfield and Li, 2012).

The contract manufacturer receives contracts from various original equipment manufacturers (OEMs) wanting to supply them. As the contract manufacturer presents itself as a manufacturer, they do not have a competition with its customers but can still manufacture products for companies that are competing against each other in the same market (Chan & Chung, 2002).

What characterizes a contract manufacturer is (Chan & Chung, 2002):

- Within transactions, they hold a long-term relationship.
- Their business focus lies in integrating competency for the future market.
- To perform, suppliers need to manage themselves.
- Working with other partners within the business.

However, selecting a contract manufacturer can be a tough procedure for new businesses. Working with a quality contract manufacturer can save a lot of costs and it is vital for companies to recognize the key areas to make the procedure of selecting a manufacturer more productively (Hanes, 2013). According to Hanes (2013), there are eight different criteria to use during the process of selecting a contract manufacturer.

For this theory, Hanes (2013) article is used, which is an article about the obstacles that a firm should be aware of and avoid when selecting a contract manufacturer in China.
The article is from the medical industry, however, the process of selecting a contract manufacturer, the problems they encounter during the selection, and the interactions with the suppliers are the same for every firm despite the difference in the industries. From the interaction perspective, this theory can be applied in any industry. This is the reason that led the author of this thesis paper to use this source.

At work, mischances and accidents, like; worker injuries and worker turnover, can affect the overall expenses, quality, and time to complete the manufacturing or the design of a project. When choosing a contract manufacturer, it is vital to choose a contract manufacturer with a high production safety, efficient operation, and an emphasis on eliminating hazards (ibid).

Project delays cause a loss in sales for the business owners. Delays in production or delivery are likely to occur when dealing with a contract manufacturer, which leads to missing the perfect sales. Another problem is when a contract manufacturer focuses mainly on meeting deadlines and not on quality production. To avoid these hassles, finding a contract manufacturer that not only respects and meets due dates but also shows an outstanding record regarding on-time delivery is crucial. To avoid these problems, the partners of the contract manufacturers provide these metrics upon request (ibid).

Obsolete stock and material management systems that underline the mass obtaining of expansive inventories lead to the mass purchase of raw materials. Some contract manufacturers end up with excess amounts of components and incomplete units when the production demand drops. Thus, those contract manufacturers would want to get rid of the stocked-up materials by adding an extra cost to the final product price of other partners, which will be an unnecessary cost for the partners to pay to the contract manufacturer. Therefore, it is important to pick a contract manufacturer that uses lean manufacturing inventory and a good inventory management system and to have a step for step marketing forecast to decrease the extra costs for OEMs and partners (ibid).

Avoid batch manufacturing and choose a contract manufacturer with a lean manufacturing system. In batch manufacturing, the production goes through a set of stages to create the final product. However, if an error occurred along the manufacturing process it affects the whole production lot, which means that they need to be made again or thrown away. That leads to additional production costs, delivery delays, and missed sales opportunities for the OEMs.
In addition, when a defective unit reaches the end customer, it can affect an organization’s reputation. That is why it is vital to pick a contract manufacturer that has quality as one of their cornerstones and safety measures against defects (ibid).

The quality, speed, and service can be different depending on the location of the factories. This will, therefore, create a need for aggregating all the projects at a specific factory. If the reporting systems are different it gives the project management bad times and time gets wasted. The project can be simplified, and the use of time can improve while reducing the costs of using a standardized production process (ibid).

To reduce errors, new product introduction (NPI) requires a clear process. It is required to have a clear understanding of the characteristics and requirements of the final product. There should be milestones set during the process and having a contract manufacturer that has a thorough production system avoids errors (ibid).

The price of the product rises if there is a lack of experience and knowledge within the supply chain management team. There are opportunities to lower costs if cheaper materials are used in the production without having to compromise quality and performance. By having professional experts in-house with high supply chain knowledge, market and demand forecasting, and industry experience will provide the product with a smooth process in the product life cycle (ibid).

According to Hanes (2013), to guarantee the best contract manufacturing partnership it is required to follow these steps:

- The production methodology of the potential contract manufacturer should be evaluated.
- Build up the usage of lean methods and find out if the lean culture is evident.
- Safety procedures should be requested and reviewed.
- Plan a visit to the facility to search for disorganizations.
- Ask tough questions while at the same time comprehend their answers.
2.3 Intercultural Communication

Samovar, Porter & McDaniel (2009) define intercultural communication as to when a person from a culture shares a message to another member from a different cultural background. In other words, it means when two or more people interact with each other having different perspectives on the culture.

Culture works as a guiding tool where it explains several things such as the amount of time allowed to have eye contact during conversations and reasons why people act in certain ways while others don’t in a variety of situations (Samovar, Porter & McDaniel, 2009). Smith (cited in Samovar, Porter & McDaniel, 2009) says that people with the same background communicate with each other in ways that are different from other cultures since that is their way of living, or better yet, their culture.

Intercultural communication goes through three phases: awareness, knowledge, and skills (Hofstede, Hofstede, and Minkov, 2010). It begins with awareness where people have the knowledge of having mental software, which is, in other words, the culture that is behind the reason of people behaving differently (ibid).

Following comes knowledge, which is about learning and knowing the cues from the foreign culture when working with them (Hofstede, Hofstede, and Minkov, 2010). It might be possible that the values will not be the same, but it is important to know the differences between your culture and theirs (ibid). The risk of failing in a foreign country can be huge if a person or an organization does not spend time becoming familiar with that country’s culture before choosing to work there. Companies need to know the habits of the countries they intend to operate in.

Working with Chinese suppliers can include a communication barrier between the parties, which is a form of reluctance to communicate ideas clearly from the Chinese side with the Western side” (Jia et al., 2014). Chinese supplier don’t normally communicate freely in business relationships, which is due to the lack of trust, fear of losing one’s face, as well as the fact that giving feedback and stating one’s opinion is not part of the Chinese culture (Wilkinson et al., 2005; Lin & Ma, 2012 cited in Kerkhoff, et al., 2017).

Finally, the last phase is skills, which are based on the previously mentioned phases including practice. It is required to know and use the symbols of the opposite culture and
know what heroes and rituals they must live that way of life to get along in their environment. Hofstede, Hofstede, and Minkov (2010) states that all people can learn intercultural communication although some might have more difficulties than others learning them.

2.4 Chinese Guanxi

The people of China have developed a unique practice that is called Guanxi in their language. Guanxi has been translated as a relationship or connection when social networking (Seligman, 1999). Yeung & Tung (1996) further explain that Guanxi is a connection that is established by two people that requires a trade of favors and have described the terms as a “gate/pass” or “to connect”. The parties that are involved in Guanxi exchange favors and share mutual obligations (Chen, Huang, & Sternquist, 2011b). Luo (2000) explains that it is important for companies to network with other companies in order to succeed.

Guanxi, on the other hand, is more unique according to Yang (2011) since it is personal, reciprocal, and long term oriented. The function of Guanxi with describing that person A helps person B and expects Person B to repay the help in the future without paying importance to the value of the returning favor (So & Walker, 2006).

It was shown in a study by Chu & Ju that Guanxi holds a significant part in their daily life (Yeung & Tung, 1996). The result showed that 92.4 % of the interviewed thought it was an important factor in their daily life, 84.5 % of the interviewed did not trust strangers until they know them better, 71.7 % choose a Guanxi connection before using a bureaucratic channel regarding personal interests and solving their problems.

In business, Guanxi is regarded as a source of sustainable competitive advantage for firms that do business in China (Cheng, Yip, & Yeung, 2012). It is required to develop and build relationships in China to do any business. The people doing business in China will spend a lot of time getting to know the person before doing any kind of deals. The process will, as soon as the evaluation of the individual is done and the individual is trustworthy, run smoother. The connection between the outsourcer and the supplier is determined by Guanxi. The supplier treats their clients differently depending on how strong the Guanxi between them or not. If the supplier has a good relationship with the customer, the customer will be favored and get better benefits then the ones that don’t have a good Guanxi with the supplier (Trent & Zacharia, 2012 cited in Lee, et al., 2017).
An organization with a strong Guanxi network will have many opportunities when doing business (Yang, 2011). The author mentions how KFC in 1987 opened its largest chain store in China thanks to KFC’s good Guanxi with the Chinese government. Furthermore, Gao (2006) explains that a successful business goes through good Guanxi, especially with the government in China. According to Yang (2011), the benefits of Guanxi are getting access to sources of resources, reliable supply of common production materials, which can be needed for manufacturers to succeed and build up a corporate reputation.

A survey made by Yeung and Tung (1996) where they interviewed heads of 19 companies, showed that the companies ranked Guanxi as the most important factor regarding long term business success. Small and medium-sized enterprises put more effort into Guanxi than bigger companies since the largest can contribute to the economy (ibid).
3 Methodology

The following section describes what methods were used throughout this paper that is also the basis for this case study. This section also describes how the collection and management of data have occurred.

3.1 Research Approach

There are different methods used to conduct academic research (Bryman and Bell 2015). A deductive qualitative is primarily used for this thesis paper. This section presents the different research methods used for this thesis.

3.1.1 Deductive versus Inductive Research

According to Bryman & Bell (2015), there are two ways of approaching which are inductive and deductive. The differences between them depend according to the authors on how the research was done when choosing to work with the theory and the empirical findings. With the deductive approach, Bryman & Bell (2015) explain that one proceeds from theories and thereafter makes a hypothesis to get the empirical material. This type of approach strengthens the objectiveness since the researchers used a theory that existed earlier. However, the inductive approach is when the researchers gather empirical data without any previous theory. One can create a new theory later with the help of the empirical material (ibid).

In this case study, the author proceeded with a deductive approach due to the conducted research. Literature was previously organized and collected by the author of this thesis, and then empirical data will be collected from inducting interviews. However, theories from the literature will be used to cross-reference with the data to come up with an in-depth conclusion.

3.1.2 Qualitative versus Quantitative Research

Choosing the right research approach is crucial to conduct the project and collect the right information with reliable data. There are three approaches that researchers can choose from: quantitative, qualitative and mixed methods (Creswell, 2014).
In a quantitative approach, a researcher purposes specific hypotheses or questions to the target measures the variables to support the findings of the answers, uses statistical analysis to answer those questions or hypotheses, and build an interpretation of the outcome (Creswell, 2014). While in a qualitative approach, the researchers purpose general questions to collect empirical data in the form of text, video, or voice recordings. As for the mixed approach, it is when using a mixture of both quantitative and qualitative techniques for the research (ibid).

The author of this thesis has chosen to use a qualitative approach since the topic of this thesis requires an in-depth investigation in order to gain a better understanding of the problem. The author considers that the qualitative method is best suited for this case study. The quantitative approach was eliminated since it is an approach that provides more generalized data that are based on quantity.

3.2 Research Design

Conducting research requires choosing the right research method and research design. These two concepts can be confused with each other, however, a research design is the structure for the collected findings and the analysis, while a research method is a technique used to collect the data and the analysis (Bryman and Bell, 2015). However, the research design can be classified according to the main objective of the study as exploratory, descriptive, and/or causal (ibid).

The research design that has been chosen for the study is the descriptive research approach, which is commonly used in business research papers. This research approach provides flexibility and fulfills the prior requirement for a theory described in the collection of data. This study follows a qualitative approach, which means that the researcher seeks to collect deep knowledge about the subject being studied.
3.3 Research Strategy

According to Yin (2014), the choice of research design depends on several factors, (1) the type of research question that has been formulated, (2) how much control researchers have over the behavioral events, and (3) how much focus on current or historical events. The three factors mentioned helps the researchers to determine the appropriate research strategy for the research. However, there are five types of research methods: experiments, surveys, archival analysis, histories, and a case study (Yin, 2014). The following table illustrates how the previously mentioned factors are used in distinguishing among each of the five types.

**Table 1**: Relevant situations for the five research strategies. Derived from (Yin, 2014, p.9).

<table>
<thead>
<tr>
<th>Method</th>
<th>(1) Form of Research Questions</th>
<th>(2) Requires Control of Behavioral Events?</th>
<th>(3) Focuses on Contemporary Events?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experiment</td>
<td>How, why?</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Survey</td>
<td>Who, what, where, how many, how much?</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>Archival Analysis</td>
<td>Who, what, where, how many, how much?</td>
<td>no</td>
<td>yes/no</td>
</tr>
<tr>
<td>History</td>
<td>How, why?</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Case Study</td>
<td>How, why?</td>
<td>no</td>
<td>yes</td>
</tr>
</tbody>
</table>

Taking into consideration the objectives of this study, a case study method is chosen since its focus is on the present behavior. The case study follows the qualitative approach in collecting data too (Bryman & Bell, 2015). Yin (2014), explains that a case study works best when a researcher wants to explain how things can work in real life or why
things are implemented in different ways. In addition, the use of a case study can provide a better understanding of social, organizational, and political circumstances.

### 3.4 Data Collection Method

In the research strategy section above it was mentioned that a case study approach was chosen for this study as a research strategy method. To ensure applying the right technique for collecting data for a study based on a case study approach, a set of data collection arrangements should be taken into consideration (Yin, 2014).

As for this study, the interviews were chosen as a relevant option for a case study to collect the data and due to the qualitative approach this study follows. Making interviews provides flexibility to the author since it will be used to collect a large amount of detailed information. In addition, the archival records were also chosen to collect data sourced from previous research papers, which were used to support the theoretical framework.

### 3.5 Data Collection Instrument

In the previous section, it was mentioned that interviews were chosen for this study. Interviews are considered as a vital method for collecting data (Rubin & Rubin, 1995). Interviews are one of the five qualitative data collection types. The other types are observations, documents, audio, and visual materials (Creswell, 2014). Creswell (2014) has also explained the options within the interview method and the advantages and limitations of using this type as shown in the table below:
Table 2: Qualitative data collection types, options, advantages and limitations. Source: (Creswell, 2014, p.191)

<table>
<thead>
<tr>
<th>Data Collection Types</th>
<th>Options within types</th>
<th>Advantages of the types</th>
<th>Limitations of the types</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviews</td>
<td>● Face-to-face--one-on-one, in-person interview</td>
<td>● Useful when participants cannot be directly observed.</td>
<td>● It provides indirect information filtered through the views of interviewees.</td>
</tr>
<tr>
<td></td>
<td>● Telephone-researcher interviews by phone</td>
<td>● Participants can provide historical information.</td>
<td>● It provides information in a designated place rather than the natural field setting.</td>
</tr>
<tr>
<td></td>
<td>● Focus group-researcher interviews participants in a group</td>
<td>● Allows researcher control over the line of questions.</td>
<td>● Researcher’s presence may bias responses.</td>
</tr>
<tr>
<td></td>
<td>● E-mail internet interview</td>
<td></td>
<td>● Not all people are equally articulate and perceptive.</td>
</tr>
</tbody>
</table>

The interview approach has different strengths and weaknesses to be taken into consideration, as shown in Table 2. Interviews provide a detailed and large amount of information but using interviews can also be tricky since poorly constructed questions can lead the interviewee to refrain from providing certain information or giving answers that would please the interviewer. To minimize these risks and increase the quality of the questions, the interviewer must follow certain steps and specific lines of inquiry as well as asking some unbiased conversational questions (Yin, 2014). According to Creswell (2014), there are different ways to carry out interviews, as illustrated below in Table 3.
Table 3: Interviews approaches used in creating the interview questions. Source: (Creswell, 2014, p.193)

<table>
<thead>
<tr>
<th>Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Conduct an unstructured, open-ended interview and take interview notes.</td>
</tr>
<tr>
<td>● Conduct an unstructured, open-ended interview; audiotape the interview, and transcribe it.</td>
</tr>
<tr>
<td>● Conduct a semi-structured interview, audiotape the interview, and transcribe it.</td>
</tr>
<tr>
<td>● Conduct a focus group interview, audiotape the interview, and transcribe it.</td>
</tr>
<tr>
<td>● Conduct different types of interviews: email or Internet, face-to-face, focus group, online focus group, and telephone interviews.</td>
</tr>
</tbody>
</table>

Effective interviews should be developed using an interview protocol during a qualitative interview for asking questions and recording answers (Creswell, 2014). The researcher makes a record of the answers by handwritten notes, voice recording, or video recording (ibid).

For this study, conducted interviews were semi-structured, audio recorded, and transcribed. These interviews were conducted as telephone and email interviews. It wasn’t possible to do in-person interviews since the interviewees live in the United States of America and the interviewer lives in Sweden. Due to the geographical distance between the interviewed companies and the interviewer, this can affect the quality of the empirical data. For example, noting having face-to-face interviews can limit the amount of the information shared or collected and can also limit the communication time.

3.5.1 Interview Guide

For the collection of empirical data, a qualitative tool that can be used is the interview method.

According to Bryman & Bell (2015), there are two different ways to perform interviews when using the qualitative approach with one being an unstructured interview method.
and the other one being semi-structured interviews. The author of this study used a semi-structured interview where the author created an interview guide, in the Appendix, based on the purpose of this thesis as well as the literature previously studied. The reason behind choosing the semi-structured interview approach is due to the flexibility it provides to the interviewer.

The interviews that were conducted included questions designed based on the theoretical framework and the subjects that were important for the author to consider. The interview guide was designed initially with questions about a short presentation of the respondents and their role in the company, which later led to questions about their experience within the work. Furthermore, the questions deepened into the actual work in the process of finding the suppliers.

3.5.2 Pretesting

Pretesting is a method used to ensure the adequacy and clarity of the questions used to collect data for the thesis. Pretesting is used to increase the reliability and the relevance of the questions to the purpose of the thesis. These questions were asked to the interviewees during the interviews.

Pretesting of the interview questions was carried out by presenting the latest version of the questions to the tutor, who is a lecturer at Linnaeus University. He reviewed the questions as well as recommended the required modifications to enhance the structure and formulation of the questions to make them more specific and narrower in scope. With the help of the tutor’s feedback, the questions were modified and were ready to be used in the interviews to collect empirical data.

3.6 Data Analysis Method

In this thesis paper, qualitative data analysis is the most appropriate to be used to analyze the collected data for the study. The data collection was conducted through interviews, which means that the researchers are left with many pages of notes, in the written form, and several hours of interview recordings. In order to deliver valuable information out of the collected data, it is important to analyze this data.
To start with, the researchers must check for any flaws in the collected data. Then, decoding the data, linking them to the research questions and the theoretical concepts, and finally drawing the conclusion (Bryman & Bell, 2015).

The first step in analyzing the raw data is to filter out the information (Bryman & Bell, 2015). The collected data through the interviews contain a dense amount of text and image data, and therefore it must be reduced and well selected to relate to the topic of the research. Next comes the organizing, compressing, and assembling of the data, as shown in the table above. Finally, drawing the conclusion and verification, which must be based on the following two conditions: (1) the ability to reflect on the differences between the interviewed companies and (2) the capability of answering the research questions.

To analyze the data collection of this research paper, the author follows the method of reducing, filtering, interpreting, and finally analyzing to retrieve facts from the interviews. Finalizing with the conclusion, which illustrates the differences between the facts collected from the different companies and answering the research questions.

### 3.7 Quality Criteria

This section illustrates the importance of validity and reliability measurements in a research assignment as well as the required quality criteria used in this study. The validity and reliability of the empirical findings are vital for every academic research project which justifies the essential reason for using the right measurement during the development of the quality standards (Bryman & Bell, 2015). Validity is an important quality criterion that involves the integrity of the conclusions that are drawn from a part of the research work (Bryman & Bell, 2015). Validity is one of a qualitative research strength which is used to determine the accuracy, credibility, and authenticity of the study (Creswell, 2014).

To evaluate the quality of the study, there are four evaluation concepts used in the illustration of the quality of any research findings. This research is a case study and the four design tests are suitable for such case studies (Yin, 2014). The four design tests should be considered during the conduction of a case study. The following table below illustrates the four concepts.
Table 4: Frequently applied Case Study Tactics for Four Design Tests. Source: (Yin 2014, p. 45).

<table>
<thead>
<tr>
<th>Test</th>
<th>Case Study Tactic</th>
<th>Phase of research in which tactic occurs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construct Validity</td>
<td>• Use multiple sources of evidence&lt;br&gt;• Establish chain in evidence&lt;br&gt;• Have key informants review draft case study report</td>
<td>Data collection&lt;br&gt;Data collection&lt;br&gt;Composition</td>
</tr>
<tr>
<td>Internal Validity</td>
<td>• Do pattern matching&lt;br&gt;• Do explanation building&lt;br&gt;• Address rival explanations&lt;br&gt;• Use logic models</td>
<td>Data analysis&lt;br&gt;Data analysis&lt;br&gt;Data analysis&lt;br&gt;Data analysis</td>
</tr>
<tr>
<td>External Validity</td>
<td>• Use theory in single-case studies&lt;br&gt;• Use replication logic in multiple-case studies</td>
<td>Research design&lt;br&gt;Research design</td>
</tr>
<tr>
<td>Reliability</td>
<td>• Use a case study protocol&lt;br&gt;• Develop a case study database</td>
<td>Data collection&lt;br&gt;Data collection</td>
</tr>
</tbody>
</table>

3.7.1 Content Validity

Content validity is conducted to ensure that the content of the concept and research measurements are the same. This procedure is implemented through consulting knowledgeable persons or experts in the field of the study (Bryman & Bell, 2015).

As shown in the pretesting section, an examination of the interview questions was done by a knowledgeable person in the field of the study at Linnaeus University and his feedback was taken into consideration. This method was used to strengthen the content validity of this research paper.


3.7.2 External Validity

External validity is when a study’s results can be generalized and the findings are out to be applicable to other cases within the same studied field (Yin, 2014). If a case study didn’t provide the research with a strong basis for generalization, then this is considered an obstacle for the case study research projects (ibid). External validity is challenging for qualitative researchers since they are based on utilizing small sample sizes (Bryman & Bell, 2015).

The operationalization section was conducted based on a literature review of the paper which is what the foundation of the framework relies on as a measurement. Operationalization was helpful to use in making the interview questions which also increased the external validity of the framework. In addition, conducting multiple interviews for collecting the data also added strength to the external validity of the study.

3.7.3 Reliability

Bryman & Bell (2015) explains "Reliability refers to the consistency of a measure of a concept " (p.158). Qualitative reliability is used to indicate how consistent a researcher’s approach is across various projects and studies (Creswell, 2014). Reliability concerns whether the results of the study are repeatable, which means if another researcher applies the same steps as used by a prior researcher and conducts the same case study they should get the same outcome and the same conclusion (Bryman & Bell, 2015; Yin, 2014).

As for this study, the reliability was conducted by producing two in-depth interviews and two email question and answer interviews. The exact same questions were used for each of the interviews to gain a solid framework for the empirical data.

The companies that were interviewed for this thesis have requested their names and companies' names not to be used. Therefore, companies and employee names have been changed to the letters of the alphabet.

The interview with Company A was conducted with the CEO and founder of the company on April 26th, 2016. The CEO of this company is the visionary of the products and the owner of the company, which is why the interview was conducted with them. The company located in the US; therefore, the interview took place on Skype, which took around 50 minutes. The questions from the Interview Guide, in the Appendix, were
used during the interview. The interview was recorded, and the data were then transcribed to be used as a source of information for the empirical findings of the thesis. The transcript was over 2000 words long.

As for Company B, the Design Manager at the company answered the questions via emails. This company is also located in the US. However, due to the interviewee’s lack of time, there was no Skype interview conducted. Instead, the interviewee answered all the questions in detail and sent the email with the answers on April 28th, 2016. The transcript of their answers was over 1300 words long.

Company C, like Company B’s case, couldn’t offer a Skype interview and instead answered questions via emails. The interviewee is the CEO and founder of the company, which is also located in the US. Their answers were sent to the author of the thesis via emails on May 2nd, 2016. The transcript was around 800 words long.

Since the Company D is also located in the US, the interview was conducted on Skype on May 9th, 2016, which took around 60 minutes. The interviewee of this company is the co-founder of the company, the visionary, and the product line’s story creator. The interview was recorded, and the transcribed data was around 1250 words.

These interviews were conducted in a short period of time to ensure the consistency of the data and therefore increase reliability. In addition, this study is following the deductive approach which means that the study can easily be repeated through different means, for example, by conducting interviews with other people/companies within the same industry.
4 Empirical Findings

The results of the empirical findings are presented in this chapter. These findings are collected from a primary source. The study consisted of four in-depth interviews with companies that had worked with contract manufacturers in China. The interviewed companies are all independent entrepreneur-based American toymakers. To preserve the privacy of the employees and firms, the company names and interviewees have been replaced.

The findings are divided up into sections based on the interview guide and the smaller subsection for each interviewed company. The sections: The Process of Selecting a Contract Manufacturer in China, Barriers when Selecting a Contract Manufacturer in China, and How to Be Prepared to Overcome Those Barriers.

4.1 The Process of Selecting a CM in China

4.1.1 Company A

Company A began with a mission to produce female superhero action figures that were specifically targeted towards a girl audience that has mainly been dominated by dolls for decades. Interviewee A, CEO & Founder of Company A, explained that during the process of designing these toys they were actively considering and seeking out a factory that could produce them. As a new startup business with absolutely no experience in the toy industry or with contract manufacturers, the first step was to reach out to various people for advice. Fortunately, Company A chooses Kickstarter as a platform and service to help them advertise their mission and product, discover mutual in the industry, and receive financial support.

Kickstarter is a crowdfunding platform on the internet that companies can use to raise money from the general public in exchange for products and services before they are manufactured. This web site and community quickly began the initial steps of seeking out contract manufacturers for Company A as they received two recommendations from two fellow SMEs within the toy industry. One of these two was a producer of engineering toys for girls recommended the manufacturer that they have been using for their toy line that was in China. In addition, Company A found two additional contract
manufacturers in China themselves, but they ended up going with the one that was suggested by the engineering toys SME. “They’ve been terrific,” Interviewee A said.

In the beginning, Company A didn’t hire a middleman. However, later they met an American businessman that lived in China for 10 years, spoke Chinese, and had previous experience in working with manufacturers. He offered his services as a middleman to help people to either connect businesses with factories and/or to go to China and make sure the factories were ethically treating their employees fairly.

Before choosing the contract manufacturer and determining whether this manufacturer has the capabilities and experience to create and deliver the kind of products the company wants, the co-founder of Company A went to China to interview two of the contract manufacturers that they had narrowed down to decide which one they were going to choose. After that, they sent a representative from the design team to the factory to witness the process and provide photographs of how the factory operates. Interviewee A, CEO & Founder of Company A, has never visited the factory herself though.

Another major factor that helped in the process of selecting a contract manufacturer was the fact that their new business friend, the engineering toys for girls SME were already overseeing the factory in China and were able to become familiar with Company A’s time constraints during the production process. Therefore, the engineering toy SME could be trusted to help keep a watchful eye over Company A’s products at the same time as their own products were being produced.

Interviewee A also explained that they would have chosen to manufacture the toys in the United States instead of utilizing offshore production such as in China, but the large expense of American labor and resources would cost-prohibitive. Therefore, U.S. manufacturing wasn’t an option for Company A since they needed to offer their consumers with affordable pricing of their products.

Mexico was considered as a possible option for manufacturing, but the nation’s domestic toy manufacturers are very different. Local Mexican factories only produce large-size scale toys that are unique to the country and would be expensive to ship. A bigger problem is that these toy producers lack the experience of creating highly detailed action figures that American consumers expect including detailed paint applications on the toys.
Company A realized early on that China was the main direction they had to choose to hire factories that would be capable of meeting their manufacturing requirements.

The fact that the manufacturer in China worked with their business friend SME, Company A knew that the factory works efficiently, quickly, and their friend wanted to help them succeed because they were invested in their relationship. Also, Company A made it clear that they were looking to build a long-term relationship with the manufacturer. The business was not a one-time transaction. They intended to create a new series of action figures every 12 to 18 months. Therefore, the contract manufacturer could feel confident that Company A would be a lucrative relationship, which is the main motivation to continue to produce things in a timely fashion.

4.1.2 Company B

Company B was formed as a full-service toy design company that has been interested in producing original collector-focused action figures of high quality. Interviewee B, Design Manager at Company B, explained that their group consists of several partners that formerly worked at Hasbro for many years as toy designers before leaving to start their own company. However, they never had to directly do business with the manufacturers of the products that they designed previously. Therefore, they decided to seek out a middleman that could help guide them to the right manufacturers overseas. Luckily, the partners of Company B had a connection with a former employee of Hasbro who was located in Hong Kong. This contact originally used to monitor the projects that Hasbro had in Asia during which he developed connections within the Asian toy manufacturing industry. The previous industrial experience enabled the middleman to connect Company B with several factory owners in China. The fact that Company B already knew someone within that business led to a smoother entrance and allowed them to meet a factory owner that showed interest in their project goals.

To determine the right manufacturer for Company B, there would be a few inductions to examine. The first would be reviewing the previously manufactured products that the factory has made. This would be a very good testament to the capabilities and quality of their output. Once this is checked thoroughly and questioned, then the only real test would be to manufacture prototypes of a company’s products to see a sampling of how the factory handles the project given to them. This prototyping stage is very expensive,
and it would be a huge setback if the company had gotten the samples back only to realize
the manufacturer was not capable of performing the work to the level needed.

Company B had four visits to the factory that they had selected in China. The initial visit
was to see the factory and to make sure it was up to their standards, both in product
quality and in the treatment of their employees. The second visit was just after the kick-
off of their production, so they could just see the progress. The third visit was after the
last set of production samples were ready to be reviewed, before the product moved to
the mass production phase. Unfortunately, Company B’s deadline had long passed by
this point, so they were actively seeking to save time any way they could during this
visit. They checked on the final set of prototypes and fixed any problems they could at
the factory to save themselves weeks of mailing samples back and forth. During the final
visit, one of their partners stayed in China for three months to help quality check
everything due to production issues because they couldn’t afford to have anything
shipped to the United States that was not corrected.

The factory has consistently shown, even when there were production problems, that
they were fully capable of producing action figures that were of better quality than
anything the partners have ever seen on the market. Company B had confidence that the
factory was fully qualified based on the manufacturer’s portfolio but seeing what the
manufacturer was able to accomplish with the figures was simply amazing to the
partners.

4.1.3 Company C

Company C was created out of a passion for retro-style action figures and classic
licenses. Interviewee C, CEO, and founder of Company C had previously dealt with
offshore manufacturing in 2006, which is the same year his company was established
where he did a small run of mini PVC ninja figures. However, he never worked within
the toy industry before that, but he did have some experience with the creation of a
product through various small custom projects he had worked on personally. To be able
to find manufacturers, Company C sought out companies that were like their own that
might be willing to share valuable information about their past experiences. A way of
determining if a factory was good enough for a job, was to go by the feedback they had
received from other companies that dealt with a specific manufacturer, and/or by having
a factory provides a visual portfolio of products that Company C was familiar with, specifically action figures, to determine their craftsmanship.

Over the years, Company C’s owner has worked with five different manufacturers in China on different projects. Two of these five required a middleman to be hired to oversee production at the factories. However, Company C has never visited China personally to review any of these manufacturers, but they think that it is always a good idea if you can, at least once.

4.1.4 Company D

Company D was formed to target an untapped market of larger male dolls made specifically for boys that were inspired by the American Girl doll-line. Interviewee D, Co-Founder of Company D, has never worked in the toy industry either and never dealt with manufacturing a product before. Although she has worked on creating custom furniture and building out pieces for commercial interior design projects. However, she was not the one responsible for having them manufactured.

Initially, they attended the New York Toy Fair to gain knowledge and meet people within the same business as them. Company D was searching for a manufacturer that could handle the amount of volume they anticipated while fulfilling the level of quality they needed. The co-founders were able to learn from friends in the industry on how to find manufacturers by using an online paid program. Through that program, they were able to discover manufacturers that could produce the high-quality level dolls that they were seeking. The program also provided statistics, shipment amounts, and other details about each manufacturer that companies can compare when searching for a contract manufacturer.

Company D based its decision on choosing the right manufacturer on the information they found through the online search of the paid program they have used. They also based it on seeing first-hand what other products this factory has manufactured and the volumes that they could produce. Other indicators that helped influence their decisions were based on the manufacturer’s communication skills, past and present product quality, and if they were able to provide Company D with a decent price quote and timeline that included a good discount for larger production quantities. Interviewee D
stated that their methods are basically a hypothesis that is being tested for them through their personal experience up to this point because they have not started production yet.

The other co-founder of Company D visited the factory only once so far. However, the company has not yet gone into production and was still in the process of perfecting their molds at this time. They visited the manufacturer to ensure that all labor laws were being abided by and to make sure the factories were clean and in good condition. They intend on coming back later to monitor the production of their products.

4.2 Barriers when Selecting a CM in China

Each one of the four interviewed companies had to encounter a set of barriers during the selection process of the right contract manufacturer. Those barriers are presented and identified in this section.

4.2.1 Company A

One of the barriers that Company A has encountered is finding a manufacturer or a person with a high level of interest in investing in their business, especially since they are dealing with the manufacturer from overseas. It is also not easy to pick a contract manufacturer because there are many of them. Company A wanted to fulfill their Kickstarter on time. Three-quarters of all Kickstarter don't start on time. The reason that happens is because of production problems and manufacturing problems with factories overseas.

According to Interviewee A, CEO & Founder of Company A, they contacted a couple of manufacturers in China, but, for example, some of them were not very responsive, one of them came back with pricing and then disappeared, and one of them didn’t seem to be interested in their business. The challenge is to find someone who is very interested and cares about getting it right as much as you do about your business.

Another barrier for Company A was finding a manufacturer capable of meeting the production deadline of the first product line when they published the business on Kickstarter. In addition, there is a time difference since the business is in the US and the factory in China. This means a lack of flexibility to visit the factory whenever they need to and instead, they use emails to get the work done. Typically, the requirement for the visits to the factory to check on prototypes and see what looks good and what needs
adjustments. This process is time-consuming because they are not dealing with each other face to face and together. It is very easy for time to get away from you. The molds need to be done right and the prototypes look good so you can move forward with production according to your timeline and get everything produced in time for your deadline, but there are certain restrictions because you’re not in the same place.

“Communication, timeliness, and responsive are big things,” said Interviewee A.

The other barrier was the lack of knowledge they had about manufacturing since they were new to the business. Some manufacturers were not interested in answering questions and explaining to them why they were making certain choices and suggestions. This was another difficulty to find someone who was willing to educate them as well as work with them.

Still, communication has not been a problem for them. The factory owner has very good English skills and thanks to the internet, they can communicate easily through Skype or email.

4.2.2 Company B

Choosing the right factory wasn’t difficult for Company B. They made their choice after the first meeting and a tour of the factory. However, one of the biggest barriers for Company B was, despite meeting several owners, only the one manufacturer was interested in working with them because of the low numbers they would be producing, initially. Eventually, it turned out to be a beneficial relationship. They would have had to start from the very beginning if it didn’t work out.

The other thing, maintaining the product quality that their company desires altogether with the reputation that the firm has already built was another barrier since they are on the other side of the world. According to Interviewee B, this is subjected to their main contract manufacturers and it represents a barrier.

Regarding communication, specifically with a foreign country, it is usual to have a language barrier, and, in this case, it seems to be one of the most common complications when selecting a contract manufacturer in China. Because of the very technical terminology involved in toy production, there are many words, phrases, and descriptions that are not easily translatable.
4.2.3 Company C

Company C’s biggest barrier was when they had to select a manufacturer with the level of competence that could deliver their project at a specific level of quality. Not knowing if the manufacturer, although they sent pictures of a similar product, could create the type of product Company C needed which created uncertainty about what the manufacturer was able to do. In other words, they’re showing you a picture of something they may never have produced, to begin with.

Another possible difficulty that might be encountered is damaged or missing tooling when transporting it from one factory to another, which caused more expenses for Company C to pay for having them repaired or replaced.

Communication was also a barrier that Company C encountered when having to deal with a factory directly. However, Interviewee C, CEO & founder, mentioned that the contractor had fair English skills, which was enough to communicate.

4.2.4 Company D

“Language barrier! Communication can be very difficult when working with overseas manufacturers. Things can easily get lost in translation.” said Interviewee D, Co-Founder of Company D. However, they didn’t have a lot of issues with communication since their main point of contact with the chosen manufacturer lived in the US for 7 years.

Moreover, unforeseen add-on costs, and clearly communicating the quality level you desire. As a new business with no experience in working with overseas manufacturers, they have come frequently across things they assumed would be included in their initial quote, which ends up as add-ons. It is also more difficult to come with a 3D model and technical documents and clearly communicate the quality level you desire as opposed to bringing your prototype already made to be reproduced.

Ensuring that international labor laws are being met/exceeded, which was extremely important to the company to visit the factory in China in person and see all the documentation in person.
4.3 How to Be Prepared to Overcome Those Barriers

The interviewed companies offered solutions and suggestions to be prepared to face these barriers. This section represents those suggestions, precautions, and solutions by the four interviewed companies.

4.3.1 Company A

You can reduce the risk of losing money and having inferior quality products delivered by using a middleman if you cannot deal directly with the manufacturer. Interviewee A mentioned that an important factor to avoid problems is to get recommendations from previous clients of a factory that had good results by talking to these clients and learning from their experiences with the contract manufacturer. It is also important to be ready to do safety checks on all products before they are released to the market to reduce and avoid expensive problems.

Interviewee A also stated that having someone that has the same language skills facilitates communication during the different processes. She also recommends working with a middleman or a partner that has the experience for consultation.

Working with contract manufacturers can also be a problem. For example, some of Company A’s prototypes can be found on eBay, which is counterfeited. Their assumption is that it is a possibility that factory workers are doing this. It is not much you can do about it. Although, Interviewee A recommends that one way to prevent fraud and that type of a problem is to find a contract manufacturer that you can build a good partnership with and build up trust. Trademarking products work as protection in the US and Europe, but it does not mean much in Asia. Especially since Chinese law has no protections for intellectual properties. However, as a business, you must recognize that going in there is only so much you can safeguard. It is just the nature of what happens over there, Interviewee A said.

In general, Company A did not have a lot of barriers to encounter during the process. Since they partnered with an experienced company that helped with designing the figures, the company acted as an advisor to explain to them what they needed to expect.

The concerns for action figures have to do with the quality of paint detail since collectors and customers will base their buying decision on the toy’s appearance. They want to
know about that and about the articulation, how poseable they are. Those were all things that were important to Company A. They also wanted to make sure they were packed and shipped properly. They did a lot of safety testing because they were shipping worldwide. They safety-tested for the United States, Canada, European Union, and Australia. They did Australia because they had so much business there and they have stricter laws. They faced issues during safety testing. Sometimes they were worried about choking hazards, the paint being safe, and about breakage. Those were things that had to be considered and taken into consideration to be sure they did everything in the proper.

Company A cares about modeling their products after these high-quality toys like from Japan, such as the detail and completeness. This is why they try to make sure the quality is good, but they are also trying to keep the price point down.

4.3.2 Company B

To ensure their expectations were being met, Interviewee B said that they made four visits to the factory overtime to review the quality of the production and treatment of the employees. The visits did not always fulfill the requirements, but the manufacturer showed that their production held a high quality. This showed Interviewee B that the manufacturer was capable to produce the products even though there were smaller issues between them. Company B had high demands of the productions, which led to disagreements, arguments, and eventually compromising with the factory owner.

It is important to highlight the relevance of having someone of trust with the same ideals that makes sure that everything and everyone is working up to expected levels accomplishing duties and obligations of the agreements. This is done by visiting or staying in the country while setting up the business so a large amount of effective communication can occur between the manufacturers and the firm itself.

Their middleman was always available to translate emails and sit in on phone calls and meetings, but this makes it a slower process. One of their partners spent 3 months at the factory in China, which resulted in him becoming more fluent in Mandarin and the factory owner has been learning English at the same time. This was already a huge step to making things easier for them. The communication process between the company, the
OEM, and their contract manufacturer became much easier with gaining better language skills.

Interviewee B recommended that the only way to deal with these barriers is to be willing to do whatever it takes to get the results you want. They had to sacrifice one of their partners for a full quarter of the year. It is also very important to have a good, respectful relationship with your factory and its workers. They have become friends with their factory owner and the factory workers are no longer nervous to see them when they visit.

To prevent fraud and other forms of false advertising from businesses you are deciding to select for manufacturing, they do receive, nearly weekly, emails from factories that seem less than legitimate. They also had good connections, so that they did not have to worry about whether the factory they were going to work with was legitimate and upstanding. They have trademarked their products in any country they are working in or distributing in. They also have the benefit of their product not being an easy product to manufacture. Their factory owner reminds them of this all the time. Because of this, it is unlikely that there will be much bootlegging and selling un-official versions of their product, at least of comparable quality.

Finally, to overcome unforeseen circumstances, Interviewee B mentioned that having the need to move to a different factory, unexpectedly, can be one of the worst scenarios. It would involve shipping the molds, which would be expensive, but it would not be the end of the world, Interviewee B said. She stressed the importance of having a backup plan for a fast recovery before it is too late.

On the less-extreme scale, the other safeguard they have is frequent communication. They need to see everything at every stage. Nothing is worse than to have thousands of a single item produced and packaged, only to find that they are defective. If they see every item in every stage, those issues can almost always be caught before it is too late.

### 4.3.3 Company C

One of the important factors for Company C was having a middleman that could ensure that everything was done correctly while being able to report back a review of activities that occurred there. To determine the quality of these manufacturers, Company C searched for recommendations and reviews from other companies that previously
worked with the factories and could provide Company C with images of previously made products.

According to Interviewee C, there is always a risk regardless of what safeguards you think you have in place. If you deal directly with a factory, which he wouldn’t recommend to anyone, you’re always at risk of losing money, receiving low-quality products, or possibly having your product bootlegged.

4.3.4 Company D

Interviewee D from Company D explained there were issues when painting the faces on the dolls. It was very challenging to get natural, boyish facial paint. The manufacturers tend to want to paint them very feminine and it is quite the challenge, Interviewee D said. This challenge was solved by hiring an artist that was based in the US that could create faces that they wanted.

Furthermore, Interviewee D said, working together with a trading company/middleman can facilitate the process and helps gain control. She also suggested that working with someone that is experienced helps greatly.

She recommends gaining knowledge and information by asking questions. Also, the best way to prevent most problems from occurring is to network people from the industry and request referrals to obtain information about safety testing, warehousing, freight, fulfillment, and insurance. She also stresses the importance of concentrating on obtaining good quality products instead of cheap pricing.

One of the precautions that were taken by Company D to prevent fraud was writing up legal documents to protect them in every step of the process. There is always a risk of your ideas being stolen in the process, and they did fear this, but at a minimum make sure to send an NDA to any manufacturer you are considering showing your idea in order to obtain a quote.
5 Analysis

The following chapter will present an analysis of the collected data, which were collected through the conducted interviews, and connecting these results to the theories presented in the literature review chapter. Furthermore, this chapter is divided up into three sections; The Process of Selecting a Contract Manufacturer in China, Barriers when Selecting a Contract Manufacturer in China, and How to Be Prepared to Overcome Those Barriers. The sections provide an organized structure to the analysis and make it easier for the reader to follow up on the information.

5.1 The Process of Selecting a CM in China

According to Chan and Chung (2002), a contract manufacturer is a business that provides products and services while collaborating with other businesses that provide services and products. All the interviewed companies in this thesis deal with a contract manufacturer in China. These companies decided to outsource their production process to an overseas contract manufacturer to reduce cost and improve the quality of the product. Those companies cannot afford the cost of having their own manufacturing force, nor they have the skills for it. These contract manufacturers provide labor and skills to manufacture the requested products, while this agreement preserves the right of the product owner to the original equipment manufacturers.

According to the IMP Group research (1982), technical issues play a critical role in attracting the companies to each other in B2B market settings. The interaction process's purpose is to connect the seller’s manufacturing technology to the buyer’s usage of the technology. The aspects of the two technological systems, as well as their variances, make up the primary conditions for the interaction. These primary conditions affect the interaction process in different ways, such as the need for modifications, trust and contact style. The OEMs interviewed for this thesis had a need for a manufacturing supplier with the right type of technology to help their toys come to life, which leads to the interaction relationship between the OEMs and contract manufacturers in China.

According to the interaction process theory by the IMP group (1982), the interaction process involves two parties in an industrial market environment. More importantly, they are part of a network. In this case, the contract manufacturer is the seller/supplier and the original equipment manufacturer is the buyer/customer. Their interaction requires a
long-term relationship. According to the theory, the interaction process episodes consist of four exchange elements that take place between the involved parties. As mentioned in the theory, there is always an exchange of a product or service between the buyer and the seller. The quality and features of the products and services offered by the seller have a significant role in affecting the relationship. The interviewed companies emphasized the importance of building a relationship with a supplier that provides them with the best production quality and meet their demands and needs.

The second element of the exchange is the information exchange where the involved parties exchange all kinds of information through a personal or a formal setting. The interviewed companies stated that the information exchange was done through different ways of communication, for example through emails, phone calls, personal interaction, or through a middleman. It can be observed that the interviewed companies made their way in the industry through connections already established in the Chinese market, either hired a middleman, through recommendations from other businesses in the same community, or through acquaintances that could help to set up and advise their commercial activities. This is where Guanxi's importance in business is shown. Guanxi, as translated by Seligman (1999), is a connection or relationship when social networking in China, where people depend on Guanxi to build connections. According to Luo (2000), part of the companies' success is networking with other companies, which is what the interviewed companies had to have to find a contract manufacturer in China. These connections paved the way to the interviewed companies to find a trusted contract manufacturer.

However, according to Chan and Chung (2002), the same contract manufacturer could be manufacturing products for competitive companies or companies in the same industry. This case was seen with Company A, where they chose a contract manufacturer that was recommended to them by another SME, who produce products that did not directly compete with themselves.

Moreover, determining the right contract manufacturer for the interviewed companies was done by being physically present in China. Some of the companies had their members make visits to the factory and/or interview the potential contract manufacturer, while some had the middleman make those visits and send back pictures and feedback of the factory, and still, some relied on the feedback from other companies that dealt with the same contract manufacturer. This case can be seen in the social exchange
episode of the interaction process theory by the IMP group (1982), in which they explain that social exchange plays an important role in diminishing the unpredictability between the two parties, especially when these two parties are 'physically and culturally distant' from each other or when their experience is insufficient. Short term difficulties can be avoided and their relationship throughout transactions can be maintained through social exchange.

5.2 Barriers when Selecting a CM in China

Selecting the right contract manufacturer for a new business can be a tough procedure, which all the case companies agreed with as well. Furthermore, according to Hanes (2013), working with a quality contract manufacturer can save costs. That is why it is vital for companies to recognize the key areas to make the procedure of selecting a manufacturer more productive. However, all the interviewed companies agreed on the following main barriers when selecting a contract manufacturer, which are: finding a manufacturer or a person with a high level of interest in investing in their business, finding a manufacturer that they can trust, meeting production deadlines, meeting their production quality standards, avoiding unforeseen add-on costs, communication and language barrier, and ensuring that international labor laws are being met/exceeded inside the factory.

Due to the low production number requested by these SMEs, finding a contract manufacturer that is interested in working with them was a barrier that all of them had to go through. It is not only that the OEMs would be picking a contract manufacturer, but also the manufacturers are choosing their clients wisely. This is related to the third element of the interaction process episodes in the interaction approach theory by IMP Group: the financial exchange, in which money quantity affects the importance of the relationship. The more it involves, the more important the relationship is to both sides. In addition, organizational experiences add to their knowledge about managing similar relationships. It can also impact how important the relationship is to the organization, and hence determine the level of their commitment to this relationship.

Moreover, according to the theory, it is important to select a contract manufacturer with a high production safety rate, efficient operations, and an emphasis on eliminating hazards (Hanes, 2013). These things affect the overall expenses, quality, and time. This is something that the case companies found to be challenging during the selection of a
contract manufacturer, especially since there are many contract manufacturers to choose from.

Delays in production or delivery lead to profit losses and missed sales, which is likely to occur when dealing with a contract manufacturer (Hanes, 2013). This is also what the case companies had as a barrier when picking a contract manufacturer as well as the difficulty of finding the manufacturer that can meet their desired quality level, especially since the factory is located in China and the businesses are located in the US, which makes it difficult to be in the factory all the time.

Hanes (2013) also points out to focus on choosing a contract manufacturer that uses lean manufacturing inventory, a good inventory management system, and one that has a step by step marketing forecast to decrease the extra costs for OEMs. If the contract manufacturer does not follow that system, they would end up with excess amounts of components. Thus, those contract manufacturers would want to get rid of the stocked-up materials by adding an extra cost to the final product price of other partners, which will be an unnecessary cost for the partners to pay to the contract manufacturer (ibid). Some of the case companies had to deal with this issue and they frequently came across things they assumed would be included in their initial quote, which ended up as add-on costs.

Communication is also a barrier that seems to be one of the most common complications dealing with a foreign manufacturer. Although the factory owner or representative can speak decent English, or the middleman can speak Chinese, there is still technical terminology that is involved in toy production including many words, phrases, and descriptions that are not easily translatable. According to the IMP Group theory (1982), one of the most important characteristics in information exchange is the content of information, which typically includes technical, economic, or organizational matters. The range and details of the information are also important. Information can be conveyed between the parties through personal or impersonal communication. Basic technical and/or commercial data are considered impersonal communication, whereas other types of data such as 'soft data' regarding, for example, the product use, the conditions or deals between the involved sides, or any general information are conveyed through personal communication (Håkansson, 1982). The information exchange procedure level may differ according to the characteristics of the organization, and this can influence the interaction process and the relationship between the involved parties (ibid).
In addition, not communicating face to face can create some misunderstandings. This is where interacting with people from different cultures can also influence the communication process. The cultural differences within the work environment are not something that is being handled very well even though globalization in the world has increased dramatically. Not being very knowledgeable in cultural differences can negatively affect a company critically.

As mentioned in the interaction approach theory by the IMP Group study (1982), one of the interaction process episodes is the social exchange where social interaction is needed to build mutual trust between the parties. During this stage, the companies that deal with other companies from other cultures or countries practice social exchange to reduce the unpredictability between them. The social exchange is also a must to build a long-term relationship as well as the other exchange elements of information, products or services, and money. Building a close relationship can lead to easier communication and the two parties will build a better understanding of each other’s roles and responsibilities (ibid). One of the interviewed companies mentioned that they were looking to build a long-term relationship with the manufacturer because the business is not a one-time thing, and this shows the importance of building a long-term close relationship. They create a new series of action figures every 12 to 18 months, just as the interaction approach theory (1982) mentions that the relationship can continue without an exchange of products or money. In addition, the involved companies make visits to each other before the transaction takes place (ibid). This is also what the interviewed companies did before placing an order.

5.3 How to Be Prepared to Overcome These Barriers

Suggestions and solutions were proposed by the four interviewed companies to help with preparing to face the previously mentioned barriers and difficulties.

All the four interviewed companies suggested working with a middleman or a partner that has the experience to give consultation to reduce the risk of losing money and having inferior quality products delivered if the company cannot deal directly with the manufacturer. Having someone to stay in the country while setting up the business facilities will produce effective communication to occur between the manufacturers and the firm itself. This practice is common in the international market. Both buying firms and selling firms are strongly affected by the internationalization of the market in terms of motivation for building up international relationships. A firm may typically set up an
overseas sales division or an international buying team and try to gain specific knowledge in languages, global trading, and so forth (Håkansson, 1982). In addition, an important factor to avoid problems is by getting recommendations and feedback from previous clients of a factory with good results. It is also important to do safety checks on all products before they are released to the market to reduce and avoid expensive problems. As Hanes (2013) suggests, it is important to evaluate the potential contract manufacturer. According to the IMP Group (1982), the entire relationship between two parties is greatly affected by the qualities or features of a product or service. Therefore, it is very important to ensure that the product or service meets the need of a buyer and that the features of a product or service can be readily specified. It is also significant to make sure that either party clearly knows the demand or capability of the other party (Håkansson, 1982).

The interviewed companies recommend building a respectful relationship with the manufacturer and the workers to break some barriers and to prevent fraud. The IMP Group (1982) explains that building a relationship largely depends on individual interactions, which involve individual members from different departments with different activities and roles in an organization (Håkansson, 1982). Individual interactions may even affect future opportunities and developments in the relationship (ibid). Therefore, it is significantly important for each individual person involved to closely communicate with each other for the development of a respectful relationship. They also suggest trademarking the products to protect them from being counterfeited, which works in the US and Europe but not in most of Asia. Also, the best way to prevent most problems from occurring is by networking with people from the industry and request referrals to obtain information about safety testing, warehousing, freight, fulfillments, and insurance. However, the nature of business is full of risks and there is only so much you can safeguard.

These companies recommend making visits to the factory to ensure that expectations are being met from the quality of the production, the treatment of workers, and other things. This is also what Hanes (2013) suggests planning a visit to the facility to search for disorganization. In addition, you need to make some compromises if you have high demands for production, which can lead to disagreements and arguments.

As for overcoming the communication barrier, they suggest learning the language that the manufacturer uses to enable the business to produce easier communications and the
Overall process. Also, having frequent communication during each stage of production is necessary to prevent excess costs. It is important to learn about the culture because not being very knowledgeable in cultural differences can negatively affect a company critically. That is why companies need to know the habits of the countries they intend to operate in. According to the IMP Group theory (1982), both buying firms and selling firms are affected by the internationalization of the market in terms of motivation for building up international relationships. For example, a firm may try to gain knowledge in languages and global trading (Håkansson, 1982).

Through this thesis, we learned that those SMEs in the toy industry encounter several obstacles when they deal with and select a contract manufacturer in China. There are some interaction problems related to communication challenges between the supplier in China and their clients from the West. Western businesses tend to use clear communication to reach their ideas directly to the other party. However, in China, as Jia et al. (2014) mention, businesses tend to avoid communicating freely with the other party and instead try to guess what their clients want. It is a part of Chinese culture to not state one's opinion directly or not to give feedback. These are often the reasons that Chinese individuals may avoid direct communication in an attempt to avoid losing face during these interactions.

The Chinese prefer using connections and networks when doing business, which is called Guanxi in the Chinese language. This was seen when some of the companies had to use the help of their connections or by hiring a middleman to find a contract manufacturer in China. The middleman helps with the communications and the interactions between both parties. However, the companies still can’t communicate directly with the supplier and that creates a barrier between them.

Other obstacles were encountered such as the production quantity and its relation to the financial exchange importance between the manufacturer and the firms. Some of the contract manufacturers refused to work with the companies that request only a limited production amount, which was yet another challenge for the companies to face while also trying to find a good contract manufacturer. This is a very likely thing to happen even if the SME likes the manufacturer. They can also encounter unforeseen add-on costs, not meeting the production required quality, and the manufacturer not meeting their production deadlines, which all will cause financial issues for the contracting firms and disturb their overall business.
Finally, despite those challenges and issues, the SMEs can and have done successful business with the contract manufacturer and can overcome these barriers. As these SMEs recommended, the most important way to deal with these barriers is to be willing to do whatever it takes to get the results that you want. They also stressed the importance of having a backup plan for fast recovery in a worst-case scenario.
6 Conclusion

The purpose of this study is to identify the barriers that SMEs in the toy industry encounter during the selection process of a contract manufacturer in China. The purpose has been fulfilled by interviewing the SMEs in the toy industry. Those companies shared their personal obstacles and challenges they dealt with during the process. Those SMEs in the toy industry have no choice but to rely on contract manufacturers to produce the products for them to save costs, to provide the skills and labor, and the required industrial technology for the production, which is the only path for them to take.

The barriers that all the interviewed companies encountered was finding the right contract manufacturer in China who could be trusted to provide them with high-quality products and agree to produce small-size scale toys. Most of the contract manufacturers were not interested in producing a limited number of toys for small companies, even when the companies were interested in making the deal with them. Consequently, those SMEs had to find trustworthy manufacturers in China who would also be interested in the business and care for their products’ quality. Some of the SMEs used the advice of other SMEs in the toy industry to be referred to as a contract manufacturer in China. Others used the help of a middleman, or through previous work and personal experiences and connections, or simply by finding the contract manufacturers via the internet.

According to the data collected, another barrier was communication and language differences. During business communications, the companies use technical terminology used in toy production including various words, phrases, and descriptions that are not easily translated into Chinese. The SMEs are all American companies and they cannot speak the Chinese language. This was an obstacle for them to have clear communication with the manufacturer. Fortunately, these SMEs referred to use the help of a middleman who could speak Chinese. Or by seeking the help of other SMEs who were already contracting with the reliable Chinese manufacturer/s. Communication was also limited from the Chinese manufacturers' side, especially when dealing with newly established SMEs businesses who lack the knowledge related to the production process. The issue they faced was the lack of explanation and information provision by the Chinese manufacturer. This is due to the business culture differences between the Chinese, low communication low feedback, and the Western, high communication high feedback, which those SMEs were not familiar with.
Another barrier is location since the manufacturers are located in China the SMEs face limited access to the facilities due to travel distance. This leads to a lack of flexibility for the companies to have a direct and personal interaction with the manufacturer or access to check on the production process thoroughly. Several manufacturers were not responsive or replied late, which created complications for the SMEs to meet their production goals and deadlines. Finding a manufacturer capable of meeting the production’s deadline was another problem encountered. Additionally, the time difference between the US and China created another communication obstacle.

As the collected data showed, there are different precautions that the companies recommended being taken to overcome those obstacles and difficulties. The companies can arm themselves with knowledge, connections, resources, networking, safety guards, and a risk-taking mind ready to face any troubles. They need to be willing to learn and have a backup plan and clear unified objectives. All the suggestions were mentioned in the analysis section.

The collected data for this thesis paper showed that all companies agree that the selection of a contract manufacturer process is accompanied by the most prominent barriers that exist within the American toy industry including communication and language, production quality risk, meeting deadlines, location, and finding a trusted manufacturer.

In conclusion, the most surprising fact during the process of selecting a contract manufacturer is that the actual amount of effort and commitment put into the process by these small and medium-sized enterprises.

### 6.1 Limitations

The main limitation of this study was in regard to finding companies that are willing to participate in the interviews. The author contacted a vast amount of companies who partner/ed with manufacturers in China. However, only received valid replies from the four above mentioned SMEs. The participated companies willingly answered all the requested questions in detail and shared comprehensive information on their personal contract manufacturing selection process.

Although, there could have been a personal bias in writing the questions used in the interviews. This, however, did not change the theory or impact the final result of the research.
6.2 Suggestions for Future Research

In the following section, the author presents some suggestions for future research. The following suggestions can be explored in future studies.

There are some ideas for future research the author suggests after conducting this study. Make the same research about other SMEs from different industries instead of limiting it to the toy industry, as was done in this study.

Another suggestion is to conduct interviews with larger enterprises within the same industry to find out potential differences between the companies based on size. That information could be used to determine if they encounter the same type of challenges.

Another suggestion is to conduct this same study with a quantitative approach, where more case companies can be involved in taking a survey to answer the research questions. Conducting quantitative research enables the author to make a comparison-based data analysis.

In addition, a single case could be used to investigate rather than multiple cases, which means that the research would conduct with one single company in a more thorough and in-depth investigation. Using an in-depth analysis of a single company can create a marketing plan made for the researched company.
References


Appendix

Interview Guide

Questions related to the experience in the business:

1. Is this your first time producing a product that requires offshore manufacturing?

2. Have you ever worked in the toy industry or have any experience in the creation of a product before?

Questions related to Selecting a Contract Manufacturer & the obstacles:

3. How did you go about searching for a factory/manufacturer to produce your toyline? Did you have to hire a middleman such as a trading company or did you decide to search directly either through resources or friends in the industry? (Explain, please!)

4. How do you determine if this factory has the capabilities and experience to create and deliver the kind of products you want?

5. Did you visit the factory? How many times? And why did you visit them?

6. What did the factories have to do to convince you that they were good?

7. What kind of obstacles did you encounter during the process of selecting the right manufacturer? Can you mention 3-5 obstacles?

Questions related to communication:

8. Any communication barriers?

9. How are their capabilities and ability to meet your needs?

Questions related to overcoming the risks encountered:

10. Which of the previously mentioned obstacles were the most difficult to overcome?

11. How were you able to solve the problem/s?
12. Can you mention 3-5 suggestions to overcome these risks? (Please explain as much you can for this question)

13. What kind of precautions were taken to prevent fraud and other forms of false advertising from businesses you are deciding to select for manufacturing?

14. What other kinds of safeguards are put into place by your business to overcome any unforeseen circumstances that could occur with outsourced production?