

FEEDBACK

China: PAYING THE PRICE

The May/June edition of PG&H included a hard hitting article on China's response to becoming a more expensive option for suppliers worldwide.

But rising labour, utility and fuel costs, new work and environmental regulations, and increased costs of raw materials, have already seen companies across the board doing the maths, with some now looking further afield.

As Steiff, for one, pulls its manufacturing out of China and returns to Berlin, will other gift suppliers begin to look elsewhere? Or will suppliers stay loyal to their Chinese factories, leaving retailers – and ultimately their customers – to pay the price?

KEN JOHNSON managing director, Enesco

"The Chinese aren't immune to the increases that the rest of the world is experiencing. Over the past 12 months, there have been major changes in its labour laws. For example, the working week has been reduced to 40 hours, and overtime rates are high. Also, energy costs have gone up as have utility and fuel costs. Resin prices have been reasonably steady, but they have now increased in line with the cost of fuel. VAT exemption has been withdrawn on giftware products over a period of time, and has now been withdrawn altogether. There are also new environmental laws with stringent control on the recycling of paper, which has substantially increased the cost of packaging; and there also the problem of the currency exchange rate between the dollar and the renminbi (RMB).

I don't think the Chinese have experienced this kind of price inflation before and it is a shock to them. To survive, they have to make significant price increases and pass them on. While we are absorbing what we can, given the size of some of the increases, we too, inevitably have to pass them on, and retailers have no alternative but to do the same. We invest a lot of money in product development and we can't undermine our own situation. We have to face up to what is going on, working with our retailers to support them, and offering products that represent value for money."



Left: Ken Johnson.



Above: A modern factory in China.

PAUL MCLAUGHLIN managing director, Libra

"In China, some factories are requesting up to a 25% increase for re-orders on products we bought six months ago, owing to surging fuel and raw materials costs. We are working hard to negotiate down these prices and absorb the costs wherever we can. Increasingly we are buying only once, which enables us to combat inflation while ensuring a constant supply of new products to our customer base. Times are challenging but it's during these times that the good companies flourish."

JULIAN HUNT managing director, Lesser & Pavey

"Although there are price increases, we are just getting on with things, staying with China and continuing to buy new products. We have absorbed a lot of the price increases and are facing problems – such as the exchange rate between the dollar and the RMB – as they arise. We have looked at Vietnam, and we do get some of our products there, but prices in other countries such as the Philippines and India are still too high."

Below: Julian Hunt.

