O N S U M E R S A N D L A B O R - R I G H T S advocates caught their collective breath when factory accidents claimed hundreds of lives this year in Bangladesh and Pakistan, calling attention yet again to the conditions under which many imported products are made.

The issue brings to light a question for many outside this sphere: How do we know the factories we source products from are safe, and how can we be assured the goods they produce are also safe?

The promotional products suppliers and distributors PPB talked to for this article frequently
Safe Products

WHY YOU MUST KNOW YOUR FACTORIES—AND THEIR SOURCES—INSIDE OUT

By Jen Alexander McCall

mentioned two key recommendations: Stay vigilant and maintain a frequent presence in the factories from where you are importing industry products.

“You’ve got to personally know what is in your product, otherwise you—and the company that puts their logo on that product—are liable for anything that goes wrong,” says Mark Trotzuk, president of supplier Boardroom Eco Apparel (UPIC: 214844) in Vancouver, British Columbia.
The First Step For Suppliers—Finding A Factory

But where do industry suppliers begin on the road to bringing safe products home? The larger firms may start with word-of-mouth, as Trotzuk says he has done, and they may also attend the large trade fairs such as HK Gift, China Import and Export Fair, or contact a local trading company or agent, an independent middleman serving as the bridge between domestic importers and Chinese factories.

Scott Pearson, vice president of supplier Sweda LLC (UPIC: SWEDA) in City of Industry, California, provides some additional insight into the process and how Sweda approaches it.

“Selecting a factory is necessary when expanding a product category or expanding a product line. Finding a factory happens on a few different levels,” says Pearson. “We use our own internal resources first to find potential factory partners. We will conduct a self-assessment audit of a new factory, along with a physical visit, to determine social standards, conditions of the factory, QA processes, management style, etc.”

Sweda has three offices in mainland China that are responsible for buying products. They were originally established as quality control offices 12 to 15 years ago, and as things have evolved, the depth of their duties has expanded.

Helen Huang, president of Fullerton, California, supplier Minya International Corp. (UPIC: minya), says many suppliers also are beginning to source products through online sites such as Alibaba.com.

The suppliers who say they are confident in their factory partners have gained that confidence through face-to-face interactions with the people who work and run the facilities, seeing first-hand how factories handle audits and how they approach worker safety and facilities management.

“What we do is work with trusted suppliers,” says Gary Haley, president of New Ulm, Minnesota, supplier Beacon Promotions (UPIC: BEACONP), who visits China at least twice a year. “As we became more involved [in product safety], especially with California’s Prop 65, we made product safety a part of our business. As CPSIA (Consumer Product Safety Information Act) requirements became more stringent, we became known for carrying safe products.”

Draper, Utah-based supplier HandStands (UPIC: HANDSTND), like many large U.S. firms has “boots on the ground,” employing a team in China to allow for quicker vetting and securing of reliable factories for long-term partnerships. “We have an extensive and exhaustive factory checklist,” says Bryce Haymond, promotional product manager and design director.

“We’ve learned to partner with quality suppliers in Asia. ... We inspect almost every order that our current suppliers produce—even partner suppliers that have been manufacturing for us for more than 20 years,” says Haymond.
Trotzuk, whose company makes apparel from recycled plastic bottles, points out that the care and concern taken with assembled products should also extend to raw materials used in components that make up the final goods. “We are unique in that we sell a higher-end product. We are very, very careful about our ingredients,” he says.

Beacon also takes extra steps to ensure that quality materials are used in its products. Jeff Lewis, Beacon Promotions’s vice president of purchasing says that several years ago Beacon asked its factory partners to source materials directly from mills. “By going to a mill, they’re going to get top quality, and they’re paying top dollar to get CPSIA-compliant quality [materials].”

“We’ve learned to partner with quality suppliers in Asia. ... We inspect almost every order that our current suppliers produce—even partner suppliers that have been manufacturing for us for more than 20 years.” —Bryce Haymond, HandStands

But the caveat, he says, is that the onus is on the factory to ensure its raw material supplier is qualified and/or certified, “and they must prove that.”

Much of HandStands’s raw material sources are from the United States or reputable European sources to ensure safety. “We require them to pass all required U.S. regulations (Prop 65, etc.) as well as conform to their own country’s regulations, which are many,” says Haymond.

About The Audit

The auditing process for vetting factories is not a singular event. Smart suppliers revisit factory partners once or several times a year to ensure standards are being upheld. Some, such as Handstands, will review safety issues with each order before approving it for shipment.

What do audits address? It depends on the supplier’s specific needs. “Our audits are multifaceted and reach well beyond product quality,” says Haymond. “We look at a company’s financial solvency, the number of years in business, factory permits and certificates of export for approved goods [a Chinese-government regulation].”

Haymond said many factories will try to export goods without a license, risking the seizure of orders. “Other things we check for are social audits, environmental conditions, minimum wage, minimum [worker] age” and more.

Joe Cade, vice president and general counsel for Tampa, Florida, supplier BIC Graphic USA (UPIC: BIC) and its sister company, Norwood, shares the steps the companies take in

Continued From Previous Page

- Do they adhere to a code of conduct, that is renewable; is it posted, posting, do they provide or undergo training?
- Does the code address the following?
  - Child labor
  - Forced labor
  - Health and safety
  - Freedom of association, collective bargaining
  - Non-discrimination
  - Working hours and wages
  - Environmental protection
  - Discipline
  - Working hours, compensation and overtime

Vendor Capability

Assess management/organizational skills, capabilities, resources and suitability by asking about these areas:

- Supplier profile: How can they be contacted, what products do they make; what markets do they serve; who are their major customers; how many years have they been in business? products made, markets served, major customers, years in business)
- What does the building layout look like, and in what condition is the equipment?
- What are their hiring practices as they relate to recruitment, documentation, training and management?
- What are their production capacities (number of lines, seasonal capabilities)?
- What are their on-site worker living conditions and capabilities (dorms, food and canteen services), and related security?
- What safety and quality control processes and records do they practice—audits, fire, emergency, EHS, re-training programs?
- What is the state of their physical plant security (personnel, warehousing, in-stock materials; fencing and loading areas, lighting)?
- How do they address environmental protection—hazardous waste, exposure to chemicals and noise, and ensuring safe drinking water?
- How do they ensure storage and shipping organization, cleanliness and security?
- What are their subcontracting policies—do they have authorized transparency, or is it not permitted?
- What are their manufacturing capabilities, production lead times and delivery dates?
- How do they address product quality—materials checking, in-process QC staffing and QC reporting?
- What price, quality and delivery track record for repeat orders do they typically display?
conducting audits with Chinese factories. “Initially we audit a new supplier for social compliance, manufacturing capabilities and supply chain security,” says Cade. “If there are corrective actions, we follow up with a full audit within approximately six months. After that we re-audit every three years, unless special circumstances warrant an interim audit. Most audits are performed by our Asian audit team that is trained and certified by ITS, but some audits are performed by third-party audit firms.”

Cade says the suppliers’ staff in Asia, Europe and the U.S. will visit factories several times a year to meet with management and tour the facilities, inspecting operations and maintaining strong working relationships.

“During these visits, we emphasize product compliance requirements for the products the factory makes for us and the importance of quality, supply chain security, social compliance and environmental stewardship.”

BIC’s established goals for social compliance audits focus on adherence to fair labor standards and workplace safety, says Cade.

“These standards include prohibitions on child labor, forced labor, unfair disciplinary practices and discrimination, as well as compliance with reasonable and legally required health and safety standards, the right to freedom of association and collective bargaining, working hours, wage rates, environmental protection and record keeping.”

Additionally, he says, manufacturing capability audits focus on the manufacturer’s facilities, workforce, equipment and other resources “to determine whether or not the manufacturer can meet our production turn times, quality requirements and order volume.”

Another type of audit, a supply chain security audit, focuses on the manufacturer’s adherence to best practices to ensure that shipments received in the U.S. do not include contraband, dangerous materials and illegal immigrants, and that those imports otherwise comply with the U.S. Customs’ Customs-Trade Partnership Against Terrorism (C-TPAT) program requirements, Cade says.

“Both BIC Graphic and Norwood have attained C-TPAT Tier 1 status with U.S. Customs,” he adds.
Audits alone don’t guarantee safe products will be made; to ensure this crucial aspect of importing is not overlooked, Cade says his company makes sure that proposed new products and related marketing materials are inspected, reviewed and/or tested to ensure safe design and construction; that they comply with federal and state product safety laws and regulations; that they do not infringe on intellectual property rights; that they adhere to import requirements and Toxic Substance Control Act certifications; that they comply with truth-in-advertising laws, and adhere to quality assurance standards and claims that address fit, form and function.

“Samples of proposed new products typically come from the first purchase order unless our inspectors in Asia determine that a pre-production sample is consistent with our specifications,” says Cade.

“We treat a product moved to a new supplier as a new product. We treat a product that is modified as a partially new product and test and review the parts that are modified. We re-test products periodically with the frequency being based upon the risk that the product carries, the volume of sales of the product and changes in laws and regulations associated with the product. All children’s products and imprint inks are re-tested annually. Most drinkware and bags are re-tested every 18 months. Many other products are re-tested approximately every 24 months.”

Cosmetics, including lip balm, over-the-counter drugs, medical devices and food/drink items are tested on various schedules as mandated by the FDA, he explains. Quality checks on initial orders are done at the factory in China and when received in BIC’s facilities in the U.S. Quality checks are also done by the operators with every order and by the packers before the order is sealed and shipped.

BIC also maintains an FDA-registered lab in its Red Wing, Minnesota, facility, to confirm that bulk products purchased for re-packing do not contain harmful bacteria. The tests are run several times before bulk containers are depleted.

Having this in-house testing lab allows BIC to obtain results much more quickly and to manage testing according to the company’s immediate needs. The company has also recently purchased an XRF gun for testing of certain low-risk products for heavy metals and interim re-testing. The XRF gun provides worthwhile information for a limited amount of testing at a low cost and on an expedited basis.

“While factories that do their own testing give the company a higher level of confidence in the factories’ product safety and compliance program, confirming compliance through independent testing is essential.”

—Joe Cade, BIC Graphic USA
It will allow also allow the company to do more re-testing of certain products for heavy metals.

The vast majority of BIC’s testing is at a third-party accredited lab, which is a CPSIA requirement for children’s products.

Cade says while factories that do their own testing give the company a higher level of confidence in the factories’ product safety and compliance program, confirming compliance through independent testing is essential.

The focus at Beacon Promotions is also on ensuring compliance with U.S. regulations such as CPSIA and Prop 65, and it relies on third-party auditing firms to help. "We always want to use a third-party auditor because they are the experts," says Lewis. “They will follow up to see if what we requested has been taken care of.”

Pearson says Sweda is pushing its factories to earn Disney certification—yes, that’s the Walt Disney Company—“and once that happens, I can offer products to distributors who source for Disney.”

Boardroom Eco Apparel relies on bluesign®, a sustainable-textile production certification program that requires monthly safety reports from factories. "If a factory doesn’t pass, I get a notice not to buy," says Trotzuk. Those factories must also sign off on a restricted substance list, pledging not to use off-limits materials in the component-making process.

**The Cost of Safe Products**

Even while clients are clamoring for lower prices, suppliers acknowledge that the rising cost of ensuring safe products makes price negotiations difficult.

Beacon’s Lewis says the cost of auditing factory partners—they make sure their top-volume partners are current—may be between $1,500 and $2,000 per audit. “Our costs have gone up as we push on the quality side,” he explains.

The time requirement and expense of audits can lead to what’s known as “audit fatigue,” says Shamini Peter, compliance and import director for New York distributor Axis Promotions (UPIC: axispromo). While mutual recognition programs between companies using the same factories can, on the surface, mean less work for one company or another, the problem comes when a supplier doesn’t read an audit document.

“Learn how to read an audit document and see what final status the factory has received. Audit documents can be valid for two to three years, depending on the last audit date.”

—Shamini Peter, Axis Promotions

"Learn how to read an audit document and see what final status the factory has received," Peter says. "Audit documents can be valid for two to three years, depending on the last audit date.”

Peter stresses that suppliers establish and follow their own checklist of questions for a factory, noting PPAI’s social accountability best practices sheet (available on ppai.org). She also recommends requiring codes of
conducts as a means of stressing compliance to factories. “If you, as a supplier, have adopted a code of conduct, then your factories and raw material suppliers should also be aware of this,” she says. “Vendor vetting is key to both product safety and social accountability. Factories need to understand the financial implications of not adhering to minimum labor standards, which is the loss of business.”

**Labor And Other Considerations**

As much as product safety drives the audits and factory vetting overseas, so do labor conditions for suppliers. However, Haley cautions domestic companies not to view overseas factory operations through an American lens. “Chinese standards are different,” he explains. “The lighting, the working conditions and the cleanliness of the factory. ... You can’t judge them against U.S. sensibilities.”

What suppliers can do is make sure factories adhere to local laws governing labor conditions. “Usually a factory that is registered in their local government office will follow the labor law and regulations,” says Minya’s Huang. These laws typically address legal working hours, safety equipment, environmental issues and child and prisoner labor.

Leeton Lee, vice president of regulatory compliance and general counsel for Oxnard, California, supplier ETS Express (UPIC: ETSE), says setting minimum compliance and safety standards for Chinese factories is unique to the needs of the purchasing company within the industry. “Every product category has its own industry-specific standards, so there is really no “one size fits all” set of standards,” Lee says.

However, every company can set standards that reflect universal industry needs. Lee recommends establishing the following: personnel safety requirements, a code of conduct, a social responsibility manual, supplier agreements and compliance certification, supplier scorecards, factory staff training, and the hiring of supplier and product and social compliance “quarterbacks”—employees whose sole responsibility is to ensure best practices related to these subjects are adhered to.

**Breaking Up Is Hard To Do—But It’s Also Rare**

When a factory fails an audit or ships products that fail to comply with safety standards, domestic suppliers who want to preserve their reputations for providing compliant goods have few options. “We want to bring in safe products,” says Beacon Promotions’ Lewis. “We’ve never had to break up with a factory because we do our due diligence. Up front we know if they’re right for us, and we’ve never had to leave a factory.”

Haymond says HandStands has issued formal warnings to factory partners, “and when done properly, they have usually responded with much better product. They do not want to lose the business if at all possible.”

Haymond says having a team in China perform inspections on each order before it’s approved for shipment helps prevent surprises.

To avoid issues with defective or dangerous products, Huang’s company starts new business on a small scale with new vendors. “In case we can’t work it out with them, the damage will be limited.”

But sometimes there’s no avoiding a problem. In Huang’s case, a recent order was shipped with a packaging color error despite a correct pre-production sample. “Now, once the goods leave the port, payment is settled and you don’t have much control over the factory,” she shares. The factory blamed the subcontractor, a printer in China, and though it offered to remake the packaging, Huang says the cost of air freight, ground transportation and additional labor ate into her profits.

“It’s our credibility to our customer, no matter what it costs, and we have to stand behind what we sell,” she says.

**The Duty Of Distributors**

The cost of compliance no longer falls solely on suppliers’ shoulders. Since distributors can also be held liable for unsafe products, larger firms like BDA are taking on the financial responsibility and paying for their own audits. “We put a big chunk of money into [audits]; we spend into the millions each year,” says Rick Rayl, vice president of purchasing and operations for Woodinville, Washington-based distributor Bensussen, Deutsch & Associates. “But it’s an investment.”

Rayl says he believes the investment, and the use of third-party quality control, helps keep suppliers honest about the process. “We will spend thousands to get factories compliant.”

Additionally, BDA looks for QCA accreditation among its industry supplier partners, believing that the independent organization’s accreditation process ensures that product safety is a top priority for those supplier members.

With the benefit of having a team in China, BDA can address two sides of the same coin—decorating. “There’s two different worlds, suppliers decorating here and offshore decorating. If something is being decorated, that triggers most of the issues.”

— Rick Rayl, Bensussen, Deutsch & Associates

“There’s two different worlds, suppliers decorating here and offshore decorating. If something is being decorated, that triggers most of the issues.”

— Rick Rayl, Bensussen, Deutsch & Associates
decorating. If something is being decorated, that triggers most of the issues," says Rayl, referring to paint and coatings, which come under CPSIA regulations for compliance with lead and other heavy metal limits.

BDA performs product inspections overseas before an order is shipped. "I'd rather catch a defective product overseas than as my client opens the box," Rayl says.

Rayl says he believes a challenge overseas lies in the "mixed messages" that factories sometimes receive from their North American partners. "The difference between a factory perspective and a customer perspective is that the factory focuses on getting that product out on time, so there are decisions being made during the decoration process to meet deadlines," he explains. "We want it out on time, but we want it safe."

Rayl says keeping overseas factories compliant and producing products that meet increasingly stringent safety standards is a long, arduous process. "You have to do your homework, and you have to trust but verify. And that costs money. But that’s the difference between short-term and long-term thinking."

Distributor American Solutions for Business (UPIC: AMER0005) strives to reassure its clients that products sold are safe, says Justin Zavadil, vice president-sales resource group for the Glenwood, Minnesota-based company. "We ask all of our vendors to supply us with any and all compliance certificates that they may have. We also instruct our sales associates to ask for this from the suppliers and to inform their customers of any information regarding product safety."

Jim Franklyn, vice president of sales and marketing for distributor InkHead Promotional Products (UPIC: InkHead) in Winder, Georgia, believes suppliers who are members of PPAI and its for-profit counterpart, ASI, should be able to show they are compliant. "Since we are one of the larger online providers, we ask our suppliers to verify that they are compliant."

However, Franklyn adds, filling large orders for Fortune 500 clients doesn’t come with requests for verification as often as one might think. "Our experience with large orders from these clients is that no matter who tests the products, Fortune 500 companies are going to test them to make sure your results are accurate."

Sweda’s Pearson sees a challenge for small distributors who purchase from small suppliers. "That is the greater percentage of risk that makes up our industry," he says. "I think the industry has an obligation to educate everyone. ... Distributors need to know enough to ask."

He says distributors need to "vote with your purchase orders. Ask questions of your suppliers. Are they doing what’s good for the industry? Do they have best business practices to detect and detour unsafe products? Everyone needs to ask the questions and understand the supply chain."

― Scott Pearson, Sweda LLC

― Jen Alexander McCall is an associate editor for PPB.