Staff and infrastructure costs in the US vs China: **What brand owners, importers and manufacturers need to know**

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Author's Perspective

During my 20 years living in Asia, I've owned a number of different business entities in greater China, ranging from China manufacturing WFOE's to service companies. All of them involved recruiting, training, managing and sometimes dismissing local staff.

China is not only a massive market but it changes rapidly, so I don't claim to be an expert on all aspects of your China business; and anybody that claims to know "everything about China" should not be taken seriously! I've had my share of success as well as failure, and in this whitepaper I'd like to share some of the key lessons, pitfalls and best practices that I learned the hard way when answering the deceptively simple question of "how much does it cost to hire staff and rent space in China?"

What's Covered?

Terminology

"Foreign" & "Local"
When I use the term "foreign" I am referring to non-China based business and people. "Local" means China-based.

“WFOE”
“WFOE” stands for “Wholly Foreign Owned Entity”. The non-Chinese party owes the means of production. There are many variations to the WFOE, such as “trading WFOE”, “service WFOE” or “manufacturing WFOE”. But what makes the WFOE special is that this type of business structure does not require any Chinese partners, yet the business is on a level playing field with Chinese owned businesses (at least in theory, from a legal perspective).

If you a want to directly employ a team in China under your own China based entity, which will be owned by you, without any local partners, then you are thinking about a WFOE.

Assumptions About the Reader

While the concepts discussed in this whitepaper may be of interest to anyone that wishes to do business in China, regardless if you are on the buy or sell side of the transaction with China. Readers who are thinking about setting up their own offices or factories in China will find the white paper particularly useful.

How this Whitepaper is Organized

This probably isn't the first article you've read about China business. So to provide real value for the readers, in addition to some of the “you probably know already” stuff included in this whitepaper that is common knowledge and generally agreed among experienced China business professionals, I have added the following bonus sections:

- ✔ *“You may not know” provides insider information that comes with 20 years’ experience serving on both sides of the buyer-seller relationship in China.*
- ✔ *“Dangerous not to know” may or may not be common knowledge, but you better be aware of it either way.*

Factory and office staff: Comparison of US & China

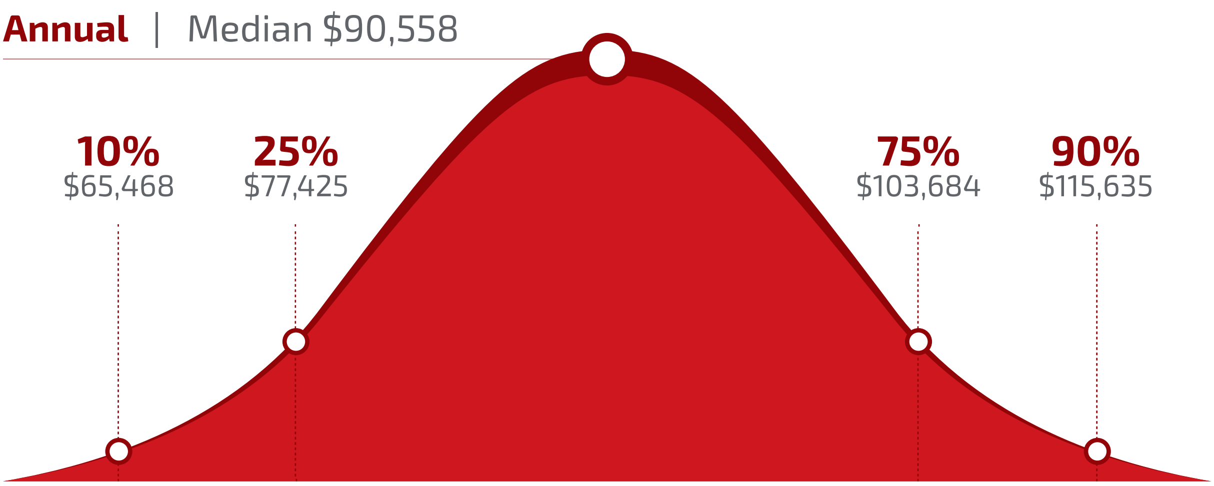
Outsourcing to factory and/or office manpower to China makes economic sense when you consider the following wage differences between the US and China.

Factory Manpower

37.29 USD per hour: Labor rate invoiced to customers of a typical US-based assembly factory.
2.29 USD per hour: Minimum wage for a Shenzhen based factory worker.

Office Manpower

According to US Census Data, **90,558 USD** is the average annual salary (exclusive of bonus and benefits) for one US-based Purchasing Manager.

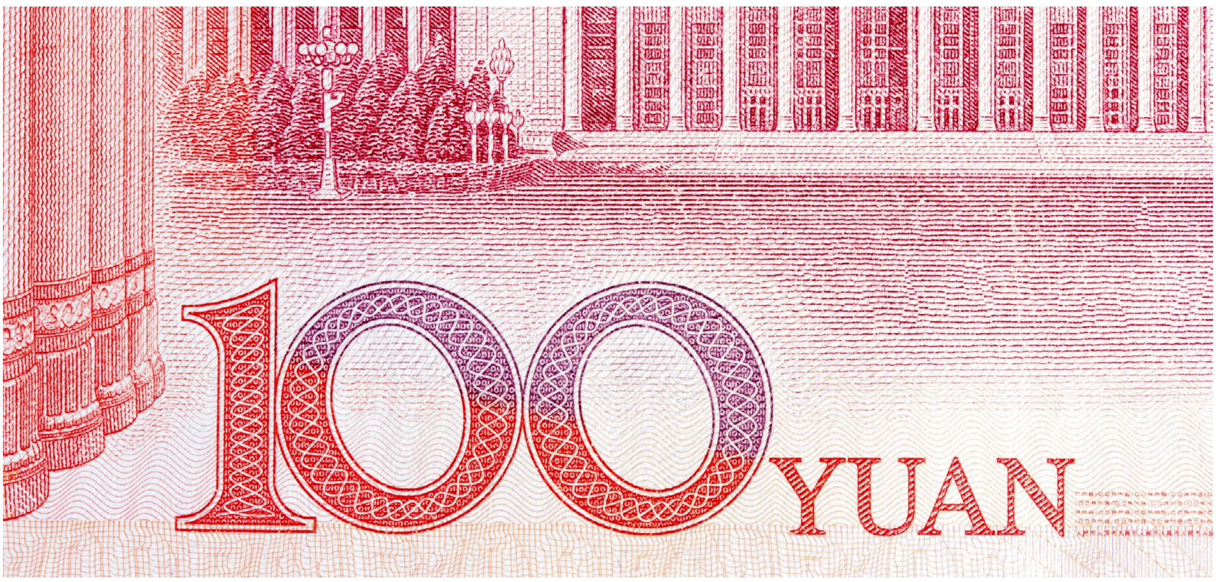


A US-based manager with even basic Asian language skills and Asian sourcing experience will command an even higher salary. Additionally, a team of managers and support staff will need to be hired, trained and supervised if there is a desire to have the in-house resources needed to manage an international supply chain.

Spending time in Asia at the factory is almost a prerequisite for success, but the cost of sending staff to Asia on multiple business trips can be cost prohibitive. The figure of 90,558 USD mentioned above is for direct salary only. All-in cost to the American company to hire staff in the USA is significantly higher after bonus, overheads, mandatory benefits and other indirect costs are calculated.

The same amount of money could engage an entire team of China-based sourcing professionals. Here is a snapshot of some of the salary levels you can expect to pay when setting up an office in China.

	Support Staff (SS) (Office Manpower)				
Classification	SS Level 1	SS Level 2	SS Level 3	SS Level 4	SS Level 5
Description	Local Chinese with college degree, less than 2 year's work experience, no special language or technical skills required	Local Chinese with college degree, less than 2 year's work experience, basic English but no technical skills required	Local Chinese with college degree, 2-5 year's work experience, no special language or technical skills required	Local Chinese with college degree, 2-5 years relevant work experience, English and/or technical skills required	Local Chinese with college degree, at least 5 years relevant work experience, technical skill or language required
Typical base salary RMB per Month	3000.00	4000.00	4850.00	5200.00	6200.00



Manpower Pitfalls

Don't make the mistake of placing too much emphasis on English skills when hiring your team in China. Obviously, some local leadership needs to be able to communicate directly with you, but too much emphasis on language skills will inflate your payroll. Additionally, English skills do not correspond directly to business skills. I have hired plenty of local staff who had polished language skills, but horrible people skills. They fell flat on the face when asked to go into the China market and open up sales channels or negotiate with vendors.

The base salaries mentioned above probably sound very attractive to you. But before you rush into setting up a factory or office in China, it's important that you have a firm grasp on the following:

- *Labor rates*
- *Work hours*
- *Mandatory benefits*
- *Taxes*
- *Severance*

Must know #1: Labor rates explained

All-in costs for manpower at a China factory or office. Shenzhen, Guangdong Province as the benchmark

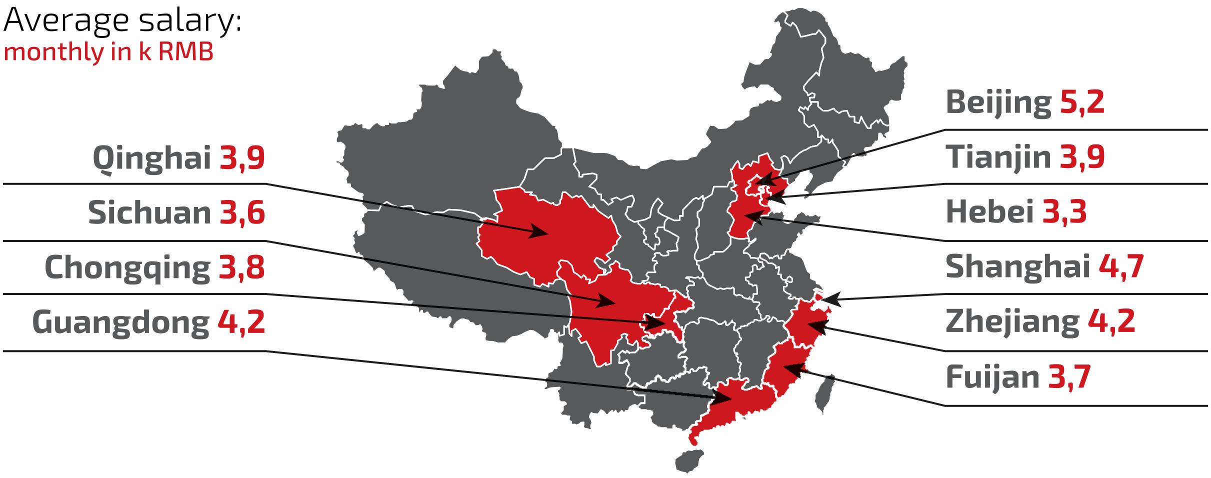
Man Power Reference Figures for full time staff dedicated to the Client's project

	Support Staff (SS) (Office Manpower)					Factory Staff (FS)
Classification	SS Level 1	SS Level 2	SS Level 3	SS Level 4	SS Level 5	FS Level 1
Description	Local Chinese with college degree, less than 2 year's work experience, no special language or technical skills required	Local Chinese with college degree, less than 2 year's work experience, basic English but no technical skills required	Local Chinese with college degree, 2-5 year's work experience, no special language or technical skills required	Local Chinese with college degree, 2-5 years relevant work experience, English and/or technical skills required	Local Chinese with college degree, at least 5 years relevant work experience, technical skill or language required	Typical factory worker basic experience. Advanced education not required. Minimum wage.
Typical base salary RMB per Month	3000.00	4000.00	4850.00	5200.00	6200.00	2020.00
Monthly Salary adjusted for Month 13 year end bonus per standard practice in China	3250.00	4333.33	5254.17	5633.33	6716.67	2199.00
Office Staff Insentives: KPI bonus (at the discression of client). PassageMaker suggests 10% of payroll be allocated to KPI fund. Dispursed on a monthly basis.	300.00	400.00	485.00	520.00	620.00	0.00
Factory Staff Insentives: KPI bonus (piece rate bonus) and/or OT. PassageMaker suggests 15% of payroll be allocated for this line item.	0.00	0.00	0.00	0.00	0.00	303.00
Dorm (800 RMB per room per month/ 4 people)	0.00	0.00	0.00	0.00	0.00	200.00
Meal Allowance & Mandatory Benefits (Tax, Housing fund, Insurance...)	1050.00	1400.00	1697.50	1820.00	2170.00	600.00
RMB	4600.00	6133.33	7436.67	7973.33	9506.67	5322.00

According to Fiducia in their report on HR costs in China, the average salary across all industries in Guangdong province is 4200 RMB per month. Even after adding bonus, mandatory benefits, dorm/housing and meal allowance, the direct labor is still under 15,000 USD per year.

Here is a snapshot of how Guangdong compares to other provinces:

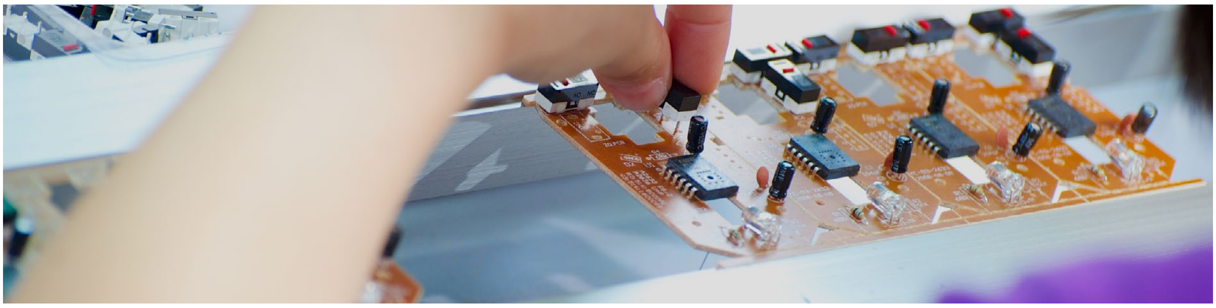
Average salary:
monthly in k RMB



While labor rates are lower in the interior, it can be hard to find suitable staff and the costs associated with logistics and training increase significantly the further you venture from the industrialized coast.

Must know #2: Work hours explained

Reference Figures: Human Resources



Factory	Typical Hours	Notes
Normal Hours of Operation	7:50am - 11:50 , 1:30pmm-5:30 Monday to Friday	Per PM policy
Normal OT Session (if needed)	OT Session: 6pm-9pm Monday to Friday.	Per PM policy
Number of 8 hour shift per day	1	Running a night shift is possible. Additional fees would apply.
OT Rate: 6pm-9pm	150%	Per labor law
OT Rate: Weekend	200%	Per labor law
OT Rate: Holiday	300%	Per labor law
Total working hours per day (pre-OT)	7.66	Per labor law, 8 hour work day equates to 7hr40min "on the production line" + 2 standard 10 min breaks + lunch break
Workdays in Average Month adjusted for government holidays. Exclusive of sick days & paid/unpaid leave as allocated by PRC labor law.	21.7	

Office	Typical Hours	Notes
Normal Hours of Operation	9am to 12:30, 2- 5:30 Monday to Friday	
OT	0	Office staff are generally not asked to perform OT. OT rates, if needed, would be 1.5X for afterhours, 2X weekends and 3X holidays.
Hours per normal work day	8	
Office: Workdays in Average Month adjusted for government holidays. Exclusive of sick days & paid/ unpaid leave as allocated by PRC labor law.	21.7	

Must know #3: Mandatory benefits explained

While labor rates are lower in the interior, it can be hard to find suitable staff and the costs associated with logistics and training increase significantly the further you venture from the industrialized coast.

Payroll:

Quick estimates & some items not to forget!

Month 13:

Payment of a Month 13 year-end bonus at Chinese New Year is standard practice in China.

Tip: to help with cash flow, foreign firms often split the month 13 bonus into 2 separate payments; 1 at Christmas and 1 at Chinese New Year (which comes in late January or early February).

Office Staff Incentives:

A bonus based on Key Performance Indicators (KPI) can be an effective tool for incentivizing staff. There are many formulas available, but for a quick estimate of how much a KPI system "costs", consider earmarking 10% of payroll to be allocated to KPI fund.

Factory Staff Incentives:

Factory staff can be incentivized with KPI and/or OT (up to legally allowable OT limits). Consider earmarking 15% of payroll be allocated for this line item.

Additional Benefits (mandatory or common):

Most office staff do not expect the company to provide room and board, but most factory staff live on site and the following is a quick budget from a factory owner's perspective:

Dorm:

800 RMB per room per month. 4 people per room is the norm.

Estimate 35% of base salary to cover meal allowance & mandatory benefits (Tax, Housing fund, Insurance...).

Even if you are providing a dorm room, you still need to contribute to the "housing fund" which in theory is designed to help staff own a home someday.

Must know #4: Taxes explained

Chinese income tax is a subject worthy of its own whitepaper, but the key things to remember are as

1. China has tiered tax brackets and tax rates increase as salary increases.
2. At the time of writing, those earning minimum wage need not pay income tax.
3. Employee and employer may negotiate into the labor contract who pays the income tax. At the end of the day, the employee focuses on how much they put in their pocket and the government is happy so long as the individual income tax is being paid.

Must know #5: Severance explained

A simple rule of thumb is to earmark 1 months' compensation for potential severance payments if you need to dismiss staff on short notice.

After an employee has completed a year's service, an additional amount equal to one month of the employee's compensation (based on average of past 12 months) should be added to the severance fund. Per PRC labor laws, the amount an employee can claim for severance increases with each year of continuous employment.

If you wish to dismiss a staff for poor performance, the employer needs to have a very strong case. Remember that the Chinese labor bureau tends to be biased toward the side of the worker, regardless if the employer is Chinese or foreign. It's a socialist country after all (in theory at least)! And if your operations scale down, don't expect it to be easy to dismiss staff. They will expect every RMB allowed for severance by PRC labor law, and then some!

Many foreign employers fail to remember that severance is calculated based on the average month's compensation, not average month's base salary. That means OT KPI incentives and even the Chinese New Year gifts will be factored in when making severance calculations. China makes is very easy to ramp up your business, but things get ugly when scaling back. It's not unheard of for the employer to be held hostage and facilities ransacked if salaries and severance go unpaid.

Key "Must know" Information

As a foreign employer, you are making a mistake to think that building goodwill with employees and suppliers is enough to protect you. To the contrary, here are 3 examples of why any operation in China needs strong but fair policy and careful monitoring of staff and suppliers.

> *"I once had a supplier go out of business on short notice. My expensive molds, tools & dies, which belonged to me, not the supplier, were sold out the backdoor as scrap by his employees who took over the factory when the supplier failed to pay his staff. The local police basically said "good luck, get in the back of the line for a small taste of the proceeds from the factory liquidation". (Visit the Tool & Die Steward for more information.)"*

> *"I once had an employee whose husband died of cancer on short notice. At the time the employee was in good standing and the husband a personal friend of mine. As goodwill, I covered the cost of the cremation and burial as the wife drew a small salary, the husband was uninsured and they had young children. A few months later, the employee's performance deteriorated and I was forced to let her go. Later I found out she had been accepting under the table compensation from suppliers. Yet she still had the nerve to request her severance package be adjusted to include the value of the burial!"*

> *"I once had a sub-contractor paint my factory. One of his employee's fell off a ladder and broke a hip. His employee and I soon learned that the insurance certificate the subcontractor showed me before the job started was fake. Case went to court. Local courts decided that the worker needs to be compensated and it was my fault for not checking that the contractor's documents were valid or not. I paid over 10,000 USD in doctor bills. Contractor paid nothing and probably went on to his next job- without even getting insurance!"*

Options for outsourced manpower and infrastructure

For companies that want to have a dedicated team in China, but prefer to avoid the headaches associated with owning and operating a facility in China, manpower and infrastructure can be outsourced to PassageMaker.

PassageMaker leverages its experience & infrastructure (China-savvy management, SOP's, business templates, checklist, quality systems, factory space, office space & business licensing) to recruit, employ, train & manage the client's China-based manpower.

Manpower comes in two forms:

Support Staff:

Support Staff (SS) based in PassageMaker's offices provide the manpower to manage the client's supply chains. This includes finding and coordinating suppliers. The full list of tasks commonly assigned to the SS is found **here.**

Factory Staff:

Factory Staff (FS) based in PassageMaker's warehouse manufacture, assemble, inspect and/or packaging the client's product. Visit **here** to learn about PassageMaker's facility in Shenzhen, China.

Fee structure:

SS and FS are managed by PassageMaker in exchange for a commission. The salaries and direct expenses of the SS and FS are invoiced to the client at cost in a transparent fashion. PassageMaker's compensation is very much performance-based.

Click **here** for details on the services and download PassageMaker's rate sheet.