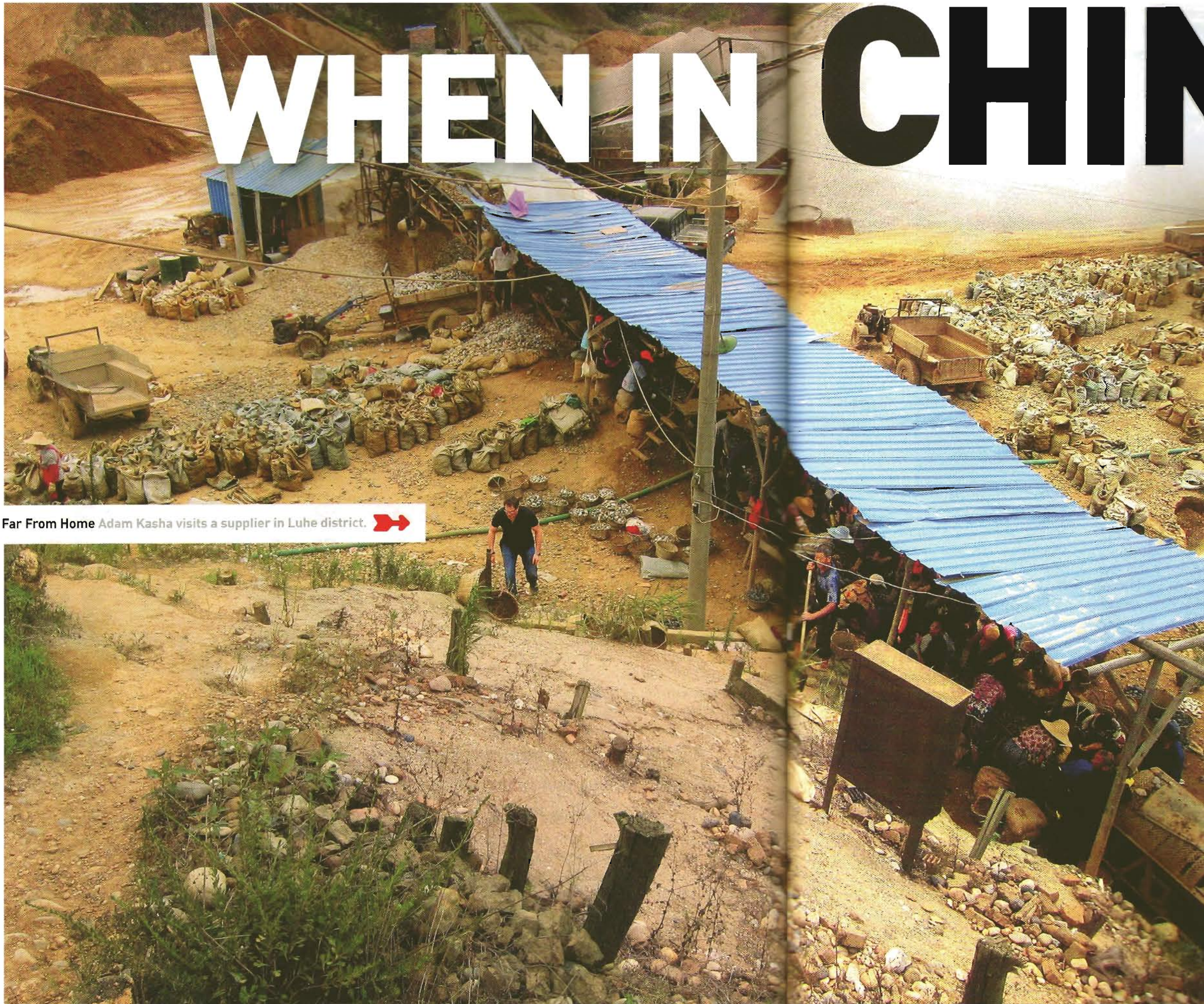


WHEN IN CHINA



Adam Kasha was proud of his from-the-gut approach to doing business in China. Then his partnership with a Chinese trading agent went spectacularly bad, and he realized he was being taught a hard lesson in how things actually work

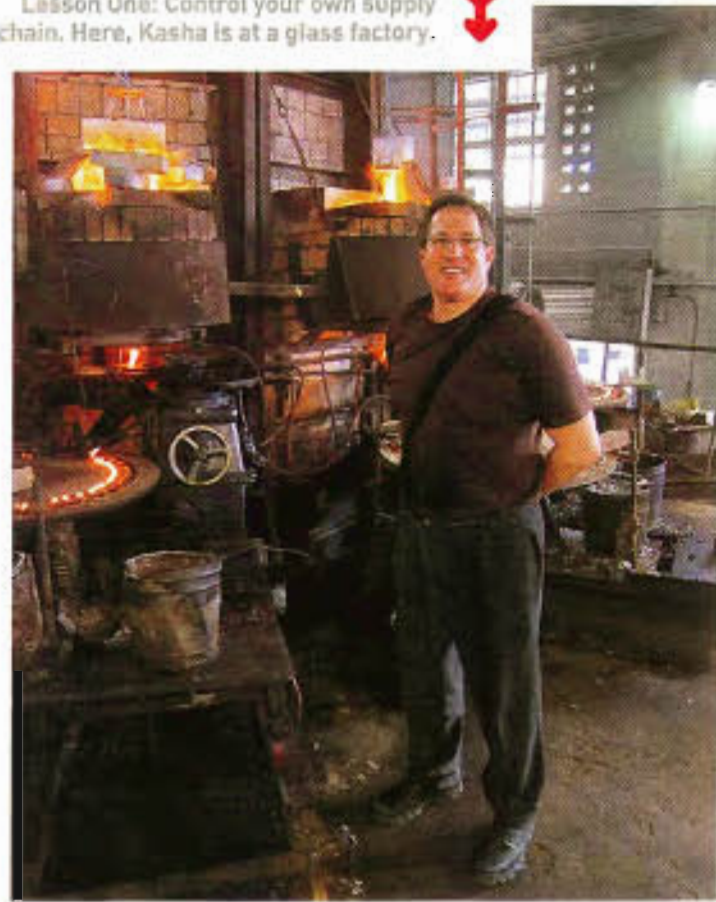
Story and photographs by
BURT HELM

Far From Home Adam Kasha visits a supplier in Luhe district. 

Adam Kasha returned to his hotel room, checked his phone for the umpteenth time, and gazed out at the murky Guangzhou sky. Six years earlier, in October 2002, he had met Rex Wang in this city. He still remembered the man's warning back then: When doing business in China, trust no one.

"No one but me," Wang had said, emptying his glass, a smile appearing beneath his mustache. They had met by chance in a hotel bar. Wang was 46 and a trading agent. Kasha, nine years younger, was in Guangzhou for the Canton Fair, there to find products for his Ann Arbor, Michigan-based decorative stone and glass company, Akasha Crystals. If whirlwind romances exist in business, those 24 hours had been one. The meeting led to a wild night of drinking and clubbing and—*only in China*—talk of supplier prices and shipping the very next morning. Somehow, in the magical hours between the 3 a.m. cab ride home and lunch, Wang had found a better quote on black river rocks than Kasha had ever seen. The reason

A Better Way
Lesson One: Control your own supply chain. Here, Kasha is at a glass factory.



was simple, Wang said: "If we work together, I will treat you as my brother. I will never try to rip you off. I will never accept a red envelope"—a Chinese euphemism for a kickback. Kasha believed him. This little guy, with his rumpled khakis, his cell phone clipped to his belt, his cigarette, had a beautiful energy about him.

Kasha held up his phone and stared at it. He had trusted that man, Rex Wang, defended him. Together, they had quintupled his company's revenue. That winter, they were on the hook to deliver the company's largest order ever, to the world's largest customer. They had made a plan to meet here for the fair. And now Wang had gone missing.

Kasha spent the rest of the fair visiting supplier booths and collecting product samples. Then he returned to Changzhou, the city on the Yangtze where Wang oversaw Akasha's Chinese operations. The warehouse was humming, but no one had seen any sign of Wang. Kasha flew back to Michigan.

From: Adam Kasha
Sent: November 9, 2008
To: Rex Wang
Subject: Please contact Adam and Joe

Do you know Joe is sitting on a pile of cash - 4,000,000 RMB, now for two weeks???

Joe needs to hear directly from you that you are alive and not crazy - and then he will send you the money.

Believe it or not, I am your true Brother. If you need anything, I will give it to you. But, I need to hear from you directly...

When Kasha formally brought Wang into the business, in 2004, Akasha's investors hated the idea. Kasha understood that. They simply couldn't appreciate the complexities in China, how many problems Wang would solve. To them, he was simply a stranger.

Here was Kasha's reality: To produce his product line of glass marbles and smooth river rocks, he needed to con-

tract with at least a dozen suppliers all over Jiangsu, a part of the Yangtze River delta a hundred miles outside Shanghai. To eke out a profit from his big-box customers (Pier 1 sold his marbles as vase fillers; Petco sold his pebbles as aquarium rocks; Walmart stocked Akasha goods in the craft, gardening, and pet departments), he needed a local place to package his products and control quality, so everything would arrive in Akasha's American warehouses ready to go and he wouldn't waste money shipping flawed product across the Pacific.

But as a foreigner, he couldn't legally do any of that—couldn't open an assembly warehouse or hire Chinese workers or ship goods out of the country—unless he spent months and thousands of dollars setting up a Chinese corporate entity called a wholly foreign owned enterprise, or WFOE. He would also need an export license.

Wang solved all that. He already had relationships with exporters. He offered to have his brother Bob set up a company in Changzhou, a city in the heart of

Jiangsu, where he and Bob would open a facility and hire workers for Akasha. (Bob had few actual duties; it was Rex's show.) For outward appearances, this company, which officially would be registered under the name Bai-Shi Craft, would be called Akasha Crystals China. Akasha would simply pay the Wangs' salaries and reimburse their expenses—no WFOE needed. It made sense.

Better yet, Kasha could already glimpse the greater potential of the relationship. The older man had introduced him to suppliers in Yangtze backwaters who had never met an American. In the boozy banquets Kasha had once found bewildering, Wang revealed the steps of the dance—how he used questions and stories to divine the worthwhile businessmen from the boasters and the frauds, how he charmed the best deals out of the former. He identified the red-flag phrases, such as *Mei guanxi!* and *Mei wenti!* (No worries! No problem!), a sure sign the supplier was hiding something. This, Kasha believed, would become his edge. His American compet-

THE WANGS WERE USING THE WAREHOUSE'S CASH FLOW LIKE AN ATM.

itors outsourced. He would know China.

Kasha crafted a deal he believed aligned their interests. In addition to paying the Wang brothers' salaries and the Changzhou warehouse's costs, Kasha would loan Rex Wang money to buy 10 percent of the U.S. business. That way, their source of profit would be the same.

The investors still opposed him. So he bought two of them out, pushing the deal through. From 2004 to 2008, revenue grew to \$10 million.

The downside of this setup was that Kasha had no legal authority in China. Rex and Bob Wang were completely in charge over there, and the stakes rose continually: As Rex found more and better suppliers, he essentially captured Akasha's entire supply chain.

Now, in late 2008, Kasha was beginning to appreciate how much that mattered. Shortly after he sent his message about the pile of cash, he got an email from Wang's girlfriend, Amy Yuan. He had begun sending messages to her as well, hoping to get to Rex that way. He told her he wanted to come to Changzhou and talk with Rex face to face.

"Rex doesn't want to meet you in China, he is waiting for the Walmart new order's down payment," she wrote.

At least he's alive, Kasha thought.

From: Adam Kasha
Sent: November 9, 2008
To: Amy Yuan
Subject: Re:RE:RE:RE Please contact Adam and Joe

Rex should be holding my hand during these days and working hard with me - not create some imaginary war. I don't know what to do...We should be helping each other, and if there is any problem, talk to each other - that is a Partnership!

In April 2008, six months before Wang went missing, Walmart hosted a vendor

meeting that, when Kasha recalls it, still chills his blood.

Recession was already creeping in, and at this summit, executives explained how the retailing giant planned to cut its costs and prepare for winter: Over the next several months, current vendors would enter a dogfight for one another's business. "Next year," a Walmart executive had said, gazing across an auditorium full of suppliers, "we may be having this meeting around a table."

It was a perilous opportunity. For Akasha, winning meant \$7 million in annual revenue from Walmart, up from \$3.5 million. Losing meant no Walmart business at all. Kasha was anxious, but

he relished the pressure.

Wang did not. Scaling that rapidly would cost too much, he argued. Besides, he began telling Kasha, he wanted to retire soon. As the U.S. staff worked on its pitch, Wang became difficult, passive-aggressive. He wouldn't send cost data to inform Akasha's bids. The final Walmart presentation relied on guesswork.

Akasha managed to win the business. In September, in what would be the last time he saw Wang before he disappeared, Kasha flew with members of his senior staff to Changzhou to help plan for the massive order. The Americans made a series of recommendations to improve operations: Wang needed to hire more

How to Protect Your Interests in China

"There's an old joke in China," says Andrew Hupert, a consultant and author of *The Fragile Bridge: Conflict Management in Chinese Business*. "If your partner doesn't have a picture of your family on their computer, then you're just a transaction. And that doesn't count for much."

So build those relationships. And while you're waiting for friendship to blossom, keep in mind these keys to setting parameters and building trust:

SET EXPECTATIONS FROM THE START.

Audition several suppliers for any project. Make it clear to each that you are working with multiple vendors. Try to anticipate anything that could go wrong, and set clear ground rules for how you plan to deal with problems. "If you bring these things into the relationship later on, they will read it as a sign of distrust," says Hupert.

PUT IT IN WRITING.

Contracts are now common in China, says Dan Harris, a lawyer at Harris & Moure and author of a blog at chinalawblog.com. Make sure any agreement clearly explains your requirements in English and Chinese.

BE FLEXIBLE, TO A POINT.

To an American, negotiation ends when the contract is signed. "Traditional Chinese negotiators don't feel that way," says Hupert. They see it as an understanding of the business relationship at a given point in time, not a hard-and-fast set of deliverables. If circumstances change, they expect their partners to adapt with them. Still, if a partner isn't holding up his end, "let him know you know what's going on," says Harris. "And if it happens again, you'll need a new agreement on that." —B.H.

staff, add more assembly tables, and rearrange the table layout so that arriving trucks of material didn't interrupt the workers. And he needed to do it immediately, because the order was huge: From December 2008 to the end of March 2009, the company would need to deliver \$2.9 million worth of product, three times more than it had ever delivered in such a time frame.

The meeting seemed to go fine. Wang expressed concern about cash flow—obviously, filling the Walmart order would require him to buy much more inventory. Kasha agreed to pay some money up front, instead of their usual arrangement, in which Akasha paid Wang 30 days after product

shipped from China.

In early October, Akasha wired Wang \$500,000. To be ready with more, Kasha successfully applied to expand the company's credit line—that was the 4 million renminbi (roughly \$500,000) Joe Albrecht, Akasha's CFO, was sitting on, the down payment Amy Yuan had referenced. But Wang had stopped returning phone calls or emails, so Akasha had held off sending it.

As Kasha emailed back and forth with Yuan, he wondered what his partner could be thinking. Much the same way Westerners exchanged ghost stories



As Required
One of 52 Akasha items sold at Walmart

You Messed Up. What Now?

After Akasha couldn't satisfy Walmart's orders in the spring of 2009, the retailing giant wanted compensation. Here's what you can learn from the back-and-forth between the two companies.

THE INJURED PARTY CALLS THE SHOTS

Retailers can and do sue vendors for damages, says Curtis Greve, a retail consultant who spent 12 years in Walmart's supply-chain department. But it is much more common for penalties to be worked out informally. Walmart sent Akasha a spreadsheet detailing its weekly shortfalls and calculating that Akasha's failings cost it up to \$609,809 in lost profits.

BUT YOU CAN NEGOTIATE...

Akasha countered Walmart's math, saying it believed customers substituted in-stock products for missing items and offering calculations that showed it owing Walmart \$267,018.36. In a few days' worth of email negotiations, the two sides settled on \$300,000.

...TO A POINT

Akasha also agreed to lower its future prices. And if it fell short once in the next eight weeks, Walmart would levy a penalty of \$10,000 per week, per product.

YOUR ALTERNATIVE?

Suppliers that refuse to pay rarely end up in court. Retailers "just don't buy from them, or they don't pay their bills," Greve says. "Keep in mind, even the biggest manufacturers pale in comparison to a Walmart or a Target. If you're a manufacturer, you're under the sword." For a company like Akasha, there's one thing worse than forking over hundreds of thousands of dollars: losing the world's biggest customer. —B.H.

about Chinese scammers, he knew Chinese businessmen had their own versions, in which the international customer makes an epic order only to vanish, leaving the exporter in the lurch. There had been some strain in their relationship, particularly in 2007. Perhaps Wang was still feeling paranoid, fearful.

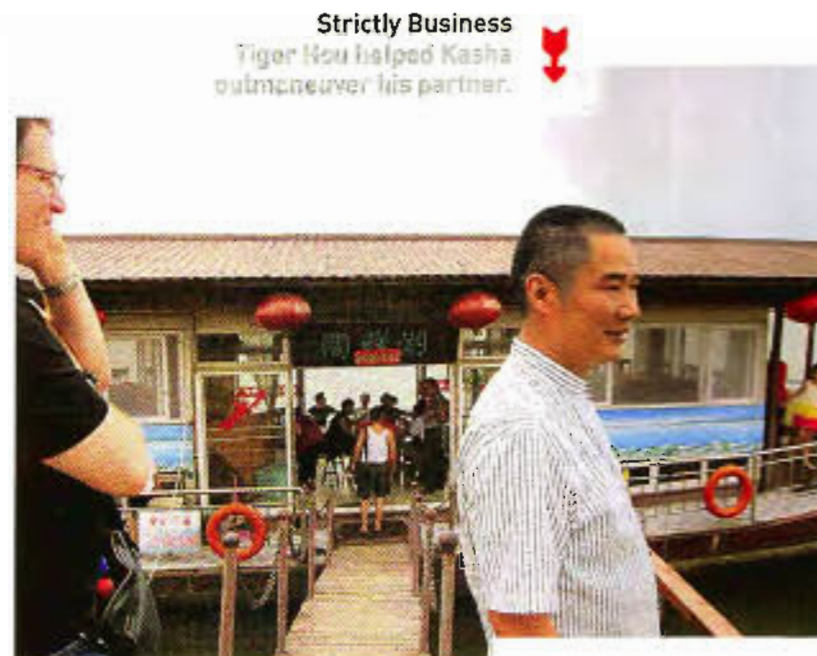
From: Rex Wang
Sent: July 5, 2007
To: Adam Kasha
Subject: Urgent you need to see

Dear Adam,
I am writing to express my strong feeling of anger!!!
We were together these week. I feel completely different from what you told me in Shanghai. I feel you are not sincere to work with me, no real trust, no real communication, no real respect, but just things you want....
Why it happens? Because you earn more business and money, and changed to another kind of person, self proud. Our happy and easy relationship has disappeared...

There had always been things about Wang that Kasha had to explain to others. At restaurants and karaoke rooms, Wang always insisted on ordering for everyone and paying the whole tab. He often drank too much, and when he did, he sometimes withdrew into himself or became quick-tempered—he hated appearing vulnerable. He teased Kasha when he tried to learn Mandarin and shushed him when he tried to contribute in supplier negotiations. As Kasha saw it, the man needed to be in control. But Wang shipped good product, and sales grew and grew. Kasha let him be.

In 2006, however, margins started slipping, and Kasha did what any American businessman would do: He investigated. In early 2007, Kasha brought Paul Wang (no relation to Rex), a Chinese-born accountant he knew in Ann Arbor, to Changzhou to figure out why Rex's costs kept creeping up.

Here's what the accountant found:



Strictly Business
Tiger Hou helped Kasha outmaneuver his partner.



Better Days
Rex Wang was crucial to Akasha's spectacular growth. Then he got angry. Then he started disappearing.

The Wang brothers were keeping two sets of books, reporting fake revenue figures to the Chinese government. They were using the warehouse's cash flow like an ATM, expensing apartments, cell phones, and who knew what else (some reports were blank or just said *Bob*). Meanwhile, the suppliers refused to tell the accountant what they were charging. "Ask Rex," they all said.

None of this, however, was a problem from Rex's point of view. The problem was that Kasha felt entitled to audit him. And Rex made no effort to hide his resentment and scorn. Later in the summer, when Kasha and Paul Wang accompanied Rex on supplier meetings, Rex openly derided them before their vendors.

Rex's feelings were so strong that eventually, Kasha felt as if he were the one who had made a hash of things. After all, Akasha Crystals China—that

is, Bai-Shi Craft—wasn't really his company, was it? Kasha didn't understand how businesses ran in China. Perhaps these sloppy cash deals and these inconsistent records were common. Perhaps Kasha had humiliated Wang over behavior that was entirely typical.

Whoever was to blame, Kasha had been in a bind ever since. If he crossed Wang, Wang might lose it and vindictively shut down the warehouse—killing his entire supply chain in the process. Wang seemed capable of that. Kasha decided that he would try to reassure Wang that he trusted him, deal with the messy operation as best he could, and urge Wang toward a speedy retirement. Once Wang was gone, Kasha would run things his way.

Now, a year and a half after that low point, Kasha instructed Albrecht to wire the second \$500,000. The next day,

the next week, the next month, they heard nothing.

From: Adam Kasha
Sent: December 20, 2008
To: Joe Albrecht; Paul Wang
Subject: FW: ACI-China Payments - Urgent!

Hi Joe and Paul,
I am considering a strategy to switch our production of all Wai-Mart from ACI-China to another agent/assembly...

Kasha knew that if he built a parallel supply chain, Wang would be furious. But when he walked into the Bai-Shi Craft warehouse in January 2009, he knew it was a move he must make.

All around him, heaps of unpacked products slumped against the walls. In the middle of the floor, there were seven assembly tables in motion—not the 12 that were needed to fill the Walmart order. Wang had ignored Kasha's recommendations. He had not been seen in weeks.

For a week, Kasha came to the warehouse early every morning, hoping Wang would show. Business then called him back to Shanghai, but he returned regularly to the warehouse over the next month. Surrounded by the overwhelming stacks of trinkets, listening to the sounds of clinking glass as the work crews scooped gems out of sacks and into the polypropylene pouches marked for Walmart, Kasha wondered what he would say to Wang when he finally did appear. He had once thought of Wang as a dear friend, even as his doubts cropped up and his employees expressed their concerns. Now, Kasha just wanted to survive this relationship.

On February 17, a bedraggled Rex Wang walked into the warehouse. He had bags under his eyes. A cigarette dangled from his lips. He wanted to talk.

Kasha and Wang sat down in a Bai-Shi Craft conference room, and Wang rehashed recent events from his point of view. Kasha had refused to trust him; he had stuck his nose into things he didn't



Big-Box Bound
Workers package polished river rocks for Akasha.

understand. Moreover, Wang said, doubling the business with Walmart was foolish. Wang didn't have the money to pay suppliers for the amount of goods he needed to order, and Akasha in the U.S. wasn't paying him enough up front to cover the difference. So why should he expand operations? Why should he put up his own money? Why should he even write back?

Kasha listened. Now it was his turn to wear the smiling mask. So, Kasha asked, what could he do to make things work?

Wang began rattling off a list of demands: He wanted a new forklift for the warehouse, an operational account funded monthly with \$30,000, more flexible lead times for orders...

Kasha agreed to all of it. Soon, he would be able to ditch Wang for a replacement. Kasha already had a prime lead.

Years earlier, a man named Tiger Hou had cold-called Kasha at his office in Michigan. He claimed to supply decorative fillers for stores in Australia and Europe. Wang had immediately dismissed him as a middleman who would lead them back to their own

suppliers in exchange for a finder's fee. Every year since, however, Hou tracked Kasha down at the trading expos with the same refrain: "Adam, I am ready." It was time to give him a try.

They arranged to meet in Changzhou on a Saturday in May. In Hou's black Audi, they drove toward Nanjing. Then they drove past it. The Audi turned onto a dirt road. They passed rice paddies and a primitive cemetery. Then, as they drove past rows of squat concrete houses, Kasha noticed something familiar outside of each home: vinyl sacks. Sacks of rocks. Outside every house were stacks and stacks of these sacks of rocks. Next, they pulled over a hill, and there before him Kasha saw Hou's operation. A massive bulldozer pushed earth. Next to it was an enormous series of chutes and conveyor belts. This was Luhe, a district filigreed with tributaries to the Yangtze River. Hou's family was buying up mining rights to a huge swath of it. River rocks were so plentiful here that the nearby farmers bought rock tumblers; the ubiquitous sacks of rocks were waiting

to be picked up by Hou. In a nearby warehouse, trucks filled with glass gems arrived and unloaded. Hou was no middleman. Kasha had arrived in decorative filler paradise.

From: Carl Kimbro, Walmart
To: Adam Kasha
Sent: July 6, 2009
Subject: In stock

Adam:
Where are we at on the out of stocks. The number is still very high. We have had get well dates come and go. If you are not shipping 100% by now, then we will need to buy from someone else. We can't keep sending customers to the competition.

By June, Hou had nine assembly lines for Akasha. Finally, Kasha could fill Walmart's orders completely. He still needed output from Bai-Shi Craft, but as Hou ramped up, Kasha could order less and less from Wang. He predicted that by September, he could dump Wang completely.

The shipping time between China

and the U.S., however, meant Walmart's buyers didn't see the results right away. On July 7, Carl Kimbro, Walmart's fabrics and crafts director, officially lost his patience. He told Kasha by email that his staff had begun calculating a lost-profits penalty for every shortfall since March. (It would eventually work out to \$300,000.) Furthermore, Akasha was now on probation. If it fell short of any order by so much as one miniature river rock, Walmart would fine the company \$10,000 per product per week. After that, Kasha could kiss the business goodbye.

Production became a high-wire act. Each week, Kasha needed everything to ship from both Hou's and Wang's facilities with no problems.

It was on July 30, almost exactly half-

In a conference room in Shanghai, Kasha gathered with a lawyer and two members of his staff. On a whiteboard, they recorded each of 33 containers that were at sea or in port. They identified which were still in Wang's possession, and of those, which carried product they needed immediately. It came down to 12 crucial containers. They were on ships handled by three different freight-forwarding companies.

Kasha and the lawyer worked out a plan. Kasha would visit each of the freight forwarders in person, explain the situation, vow he would increase his business, and then offer to put the full value of the containers in escrow. He hoped that would give the forwarders a sufficient sense of protection to let the containers go. The last of the containers

Angeles, trucks picked up the containers and rushed them to Akasha.

On August 9, Rex wrote back, reiterating his complaints. He ended his catalog of hurt with a demand for \$2 million.

It was too late for Wang. The power balance had shifted. On August 10, the man got his own surprise. One of his glass suppliers, which was owed three months' worth of payments, took a legal action that led Chinese authorities to seal the Bai-Shi Craft facility. Soon after, Wang called Kasha to work out a settlement. It would be the last time they spoke. Wang's only comment for this story was a single epithet: "Adam is bullshit."

Three years have passed since then. Akasha operates its own trading company in Shanghai now and continues to sell to Walmart. Tiger Hou remains a partner, although a few months into the relationship, containers began arriving in the U.S. carrying river rocks that were too small or irregularly shaped—the kind of subpar stuff Wang would have turned away at the door of Bai-Shi Craft. Kasha has moved some work to other facilities to help with quality control, and Hou's output has improved.

Akasha's annual revenue remains steady at around \$12 million. Since 2009, the company has struggled to operate at a profit. The fiasco with Wang left it with \$1.9 million in debt.

Kasha now negotiates deals with suppliers himself. He follows a simple set of rules. He introduces his business and his big-name customers—he paints a picture of the future the supplier could have with him. Next, he doesn't ask for the lowest prices or the highest-quality products. He asks for information. "I want your real lead times, your real capacity," says Kasha. He ends by prohibiting his potential partners from ever saying "Mei wenti—no problem!" and "Mei guanxi—no worries!" Then he goes out and finds two more just like them. **Q**

THIS WAS WHAT TRUST AMOUNTED TO FOR AN AMERICAN IN CHINA. IT WAS CREATED BY A FINANCIAL INCENTIVE.

way through the probation period, that an incoming email sent his whole plan reeling. It was from Wang. He had found out about Hou. He was not happy.

The email started with his usual accusations of insufficient payments. It followed with a demand for money and a serious threat: Wang was holding bills of lading on all the containers he could until he got paid. "Now I'm seriousness tell you, before Aug. 10-15 I need to pay 1 million, please prepare," he wrote.

Kasha didn't have \$1 million to pay him. The impossible was happening. Shipped containers, already en route to the U.S. and filled with indispensable product—containers Kasha had assumed were safe—were now in peril. By withholding the paperwork, Wang could effectively hold containers ransom in the port of Los Angeles indefinitely.

were due in port on August 9.

In the meetings, the freight forwarders said they would check with their lawyers and get back to Kasha.

This, Kasha realized, was what trust amounted to for an American in China. It was created by the possibility of future business, or by a financial incentive. That wasn't really trust. It was a practical, amoral trellis to help the little green vine of trust grow.

On August 8, Kasha's lawyer sent a letter to Rex and Bob Wang demanding they release the bills of lading. Otherwise, the letter threatened, Akasha would reject all containers and have them shipped back at the Wangs' expense. They got silence.

But later that day, Kasha heard back from all three freight forwarders. They were releasing the containers. In Los

But Helm is Inc.'s senior writer. Yadan Ouyang provided research assistance for the story.