

Coloplast

1. What is the difference between Outsourcing and Offshoring? When do companies decide to outsource/offshore? What would make a company choose one over the other? Why did Coloplast decide to offshore and not outsource their manufacturing function?

Key Differences: **Outsourcing** is the act of transferring business activities to an external organization that has a level of specializations. **Offshoring**, on the other hand, refers to moving an organization's business to another country

Outsource when the product is very standard and does not require high knowledge to produce. Low asset specificity. You can use it to create a better image and use an established brand.

Offshoring: High asset specificity. Save cost on cheaper manufacturing, if you can save payroll and save money on local sourcing, be closer to the resources. There could be policies and local legislation that would benefit the firm to offshore to a specific country. Protecting technology.
Economies of scope or scale.

Lower costs to establish the plant and lower wages. The local reputation is good, and many other Danish companies have established a facility there. The infrastructure is good, the firm is close to the airport.

The firm wants to protect their products because their quality is so good. Also, their products is. What gives. Them competitive advantage. Therefore, they want to have more control.

They offshored volume production of ostomy bags (the established products).

The asset specificity of the ostomy bag is high but does not need to be innovated further.

Therefore, the other plants can focus on new products.

Economies of scope is important for Coloplast.

Their original products were used for healthcare, but the healthcare needs newer products.

The government tries to regulate the healthcare system in Germany so their revenues declines. Therefore, the products margin has decrease. 81 pct. of Coloplast's revenue comes from 81 p

optimize its location choice. Moreover, Coloplast interviewed Danish companies already established in the area, which provided hands-on experiences and details on advantages and pitfalls, giving Coloplast a bird's-eye view of key issues involved in relocation. As it turned out, the chosen location in Tatabánya,

In Denmark Coloplast is decentralized. The plants were located close to each other in DK and therefore, it worked fine with having different systems in each plant. However, in Hungary it was not possible to implement their own system like in Denmark.

What forms of coordination was Coloplast using in its offshoring Hungary?

Coloplast had focused more on manufacturing activities when building the Hungarian facility to clearly define roles and responsibilities and underline that volume production was the prime activity. Production units in DK had more blurred boundaries between production and support functions.

The people from DK should go to Hungary and learn the new workers how to do their job. This was due to, so the Danish workers did not feel that their jobs were being taken from the Hungarians.

What were the challenges?

Cultural issues. The Hungarian workers prefer a more structured workplace and a standardization and documentation. However, in Denmark things were not very documented and standardized.

The Danish workers had an assumption that the Hungarians were not very technologically skilled. The Danish workers simplify things even though the Hungarians have the skill and do not need the simplified version of how to do their job.

In Hungary there is high uncertainty avoidance. They expect clear directions and guidelines. The power distance is very different.

The Hungarians feel that the Danes do not want to give them information. They think that the Danes are afraid to lose their jobs. The Hungarian workers are very competitive.

Language barrier. Knowledge sharing.

The different units had very different ways of operating, so it was hard to create a standard way of doing things in Hungary.

Cost considerations and logistical considerations were an issue for the company.

Regional differences existed within Hungary in terms of wage.

Masculinity is much higher in Hungary compared to DK.

The plant in Hungary should be more formalized.

2. What do companies need to pay attention to when they decide to offshore production to another international location?

3. What were the challenges Coloplast faced due to its changed strategy to offshore volume production to Hungary? Plot these challenges according to the 'hard' (task & structure) and 'soft' (people and culture) challenges and reflect upon their interrelationships?

4. What would be the challenges one can anticipate that Coloplast will face in China? How should Coloplast prepare itself for addressing these challenges?

Cultural problems. Power distance. Language barriers might be a problem.

Research the culture in China, what norms and values are present. Talk with other companies in China and learn from their mistakes.

Economies of scope, get in into the Asian market, which might be why they go to China.

Power distance. Dealing with the fear of the Danish workers of losing their jobs. At some point layoffs are going happen to reduce costs. Issues of sourcing locally and finding similar quality of resources in Asia.

Way to organize: Moving workers from both Hungary and Denmark to China. But the Danish workers would be in a higher position, due to the Danish workers have a higher know how. Have Chinese management combined with Danish management to create a link between the workers and the higher top management. Bring the people from the Hungary who were a part of the offshoring process and integrate it to China.

Training:

One of the issues with China: If you have a Dane in charge and then a Chinese, there might be issues like the Chinese manager does not tell the truth If things are not working well. In China there is a social norm where you do not challenge the person above you.

Will bring a Chinese person who is at the same power level as the Danse.

Indulgence low: Tight social controls.

High: people like to enjoy a beer together at work or have lunch together.

Create an individualistic reward system because people in China. Have high masculinity so people are more custom to compete and behave individualistic. However, it also depends on the task.

The transnational organization.

Coloplast might copareate with other firms even though they want to protect their tech. Howeverr, it mighjt not be relevant cor coloplast because itt is cheap for them to produce compared to medicins. DO just like Merck and Pfizer where they created cross-license.

Coloplast have gone with centralized coordination.

May refer to the web link: <https://www.hofstede-insights.com/product/compare-countries/>

May refer to other theories on leading change, choosing strategies for change as well as transaction costs.

Notes while reading

Introduction

Coloplast's involvement In Tatabanya was part of its manufacturing strategy to increasingly locate scale production low-cost regions. The company had to face internal challenges before it could exploit the unit's potential in Hungary. It had been difficult to define new task areas and roles for the Danish production workers as the volume production moved to Tatabanya. They had challenges with creating a standard system and internal procedures for the production systems in Denmark and Hungary due to the Danish production unit having operated very independently.

Rasmussens main challenge was to convience the rest of the organization that Coloplast needed to make significant changes to exploit the potential in Hungary.

History

Began in 1954 with Elise and her sister. It started as a family business. Coloplast specializes in five business areas (see exhibit 2). In 2004 they were doing really well. The have an early internationalization. In 2005 more that 97 percent of the revenue was generated outside of DK. 81 percent was derived from Europe and 13 percent from America. Manufacturing took place in Dk, Germany, Hungary, the US, Costa Rica and China.

Strategy 2008

In 2005 Coloplast's medium objective was to achieve a turnover of DKK9 billion and a profit margin of 18 percent by 2008 (see exhibit 3). The company focused on two pillars to accomblish the goal:

1: product innovation

2: Optimization of processes within production units in DK and relocation of volume production for mature product line to Hungary and China.

Some products like the ostomy bag enjoyed long product-life cycles. Coloplast needed to confront certain risk factors at macro level like harmonization of health care system resulting in lower prices in high-price countries.

In 2003/2004 they had poorly performing business units in Germany due to weak currencies and bad strategies. Coloplast depended indirectly on public reimbursement (refunding) schemes. Reduction in reimbursement schemes in Germany affected Coloplast a lot. Coloplast was effected by currency fluctuations because the greatest share of sales was generated outside of DK. The company implemented changes to improve the capability for reaching growth and profit objectives.

Production

Since 2001 an increasing volume of production was relocated to Hungary and divided its production into four interconnected phases, pilot-phase, ramp-up phase, scale production, range care.

Offshoring to Tatabanya, Hungary

In 1999 Coloplast took its first look at relocation production low a low-cost region. Coloplast interviewed Danish companies already established in the area, which provided hands-on experiences and details on advantages and pitfalls, giving Coloplast a Bird's-eye view of key issues involved in relocation. The location in Tatabanya was right next to the Danish firm, Grundfos. Grundfos reports positive experiences with location close to the capital Budapest, the airport and other western companies.

The establishment in Hungary was due to low production cost, which is 20 percent less than Danish levels.

Cost considerations and logistical considerations were an issue for the company. Regional differences existed within Hungary in terms of wage. Coloplast had focused more on manufacturing activities when building the Hungarian facility to clearly define roles and responsibilities and underline that volume production was the prime activity. Production units in DK had more blurred boundaries between production and support functions.

They created a direct reference line between former plant manager and group management, because three product divisions were involved in the decision making concerning Tatabanya, which complicated the process.

They may relocate some development activities to Hungary when they have established a knowledge base in Hungary.

Internal Organizational Challenges

During the Hungarian offshoring project Allan had encountered to internal challenges. One involved system and the transformation of organizational structures (such as IT) and the other concerned HR aspects, such as limiting attrition rates, transfer knowledge and limit social hardship.

Their Danish production facilities were characterized by a decentralized organizational structure with a high degree of autonomy in its production planning systems and documentation. Coloplast has six different plants in DK, each specializes in one of Coloplast's three different main business areas: ostomy, continence products and adhesives. Adding the Hungarian production unit complicated communication and amplified the weaknesses of the decentralized informal and loose structure. In DK the communication was easy because most facilities were located half an hour drive from each other.

The decentralized structure complicated the task of documenting production and planning systems. Standardization was not the way production was organized in Danish Coloplast factories. Each factory felt that its way of organizing production was unique and could not be altered. Coloplast needed to address the issue of documentation

Training and knowledge transfer required human interaction.

Solutions to problems were improvised. The Danish employees had a tendency to simplify instructions excessively or act passively in the knowledge transfer process, approaches that creates misunderstanding and an underestimation of the Hungarian workers' skills. Some of the workers in Hungarian have more than 10 years of experience example with Audi. The key was to create a forum in which best practices could be share.

Communication and Employee Commitment

Coloplast involved employee representatives in a liaison committee to plan communications with production workers.

Each time a machine was relocated to a low-cost area, the worker was offered a new position in the company. "Those employees that are committed know that they will have a future here".

Coloplast had managed to minimize costs through internal redeployment. Coloplast also offered additional training to employees whose jobs were affected.

Local sourcing and Distribution

The Hungarian unit bought material from Coloplast Denmark, which in turn sourced it from a German supplier, who had bought it from a Hungarian producer. By buying from the Hungarian producer, Coloplast Hungary could save up to 66 percent.

Epilogue

Coloplast needed to face the challenges of centralization, standardization and the structuring of interfaces.

A crucial task was to define and apply the best practices from the Danish and Hungarian facilities. The Hungarian production unit needs to be integrated with HQ and production in DK. They want to offshore to China. A global line of thinking was required to succeed in