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INVESTIGATION ON THE RELOCATION AND BACKSHORING STRATEGIES OF FRENCH MANUFACTURING COMPANIES



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In this thesis, two phenomena are approached: the relocation and the backshoring of companies. In order to follow a certain chronology, it is the phenomenon of relocation which is explained first, in order to continue with the one of backshoring. Indeed, if the relocation of a company does not take place, the backshoring of this same company can not happen.

Thus, to begin this thesis and also to help the reader to better understand its topic, few definitions of relocation are provided as well as others of related terms that are often used to talk about it but that do not always mean the same thing. Then, the history of this phenomenon and the influence of the international competition are approached before talking about the different factors, which make this process possible. Additional informations are also provided on the current host countries before giving some examples of companies which already went through this process.

But relocation does not work for everybody. Thus, some companies decide to come back in their home country. It corresponds to the definition of the backshoring process which is defined after in the second part of this thesis. The different waves and steps of the process are also approached, before giving some of the reasons which push companies to choose this option. To finish this thesis and to give it a more practical aspect, three cases of companies are delivered.

KEYWORDS:

Relocation, Backshoring, Asia, international competition, China, home country, host country.

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1 INTRODUCTION

1.1 EXPLANATION OF THE TOPIC

During several decades, West European Industries were using the same model of organization in order to create, invent, develop and launch their products on the market. It means that everything was produced in the home country and was then consumed by the domestic market or exported abroad in order to answer to the foreign demand. (Faust et.al 2004, 71)

But then, the phenomenon of globalization appeared and forced in a way, companies to change this organization. Today companies have to face international competitors instead of only national ones. That is why the competition began to be harder. In fact, the phenomenon of globalization can be interpreted as the development of the modern society in a more and more global society. (Klank.A, 2007, 1). It permits the opening of the economies and the borders of the countries to the world.

On one side, the liberalisation of the global market created a lot of new opportunities for the companies but on the other side it also created a really strong international competition. To deal with this new threat and to stay competitive on the market, companies looked for solutions to reduce their costs and to improve the quality of their products (Maetschke.L, 2009, 3). In this context, the phenomenon of relocation to developing countries appeared as one relevant solution to reach this goal. In addition, the fast development of the different ways of communication as the Internet, the phone and all the others, facilitate the process of relocation. In fact, thanks to their development, collaborating with somebody situated across the town is as easy as collaborating with somebody situated across the ocean (Klank.A, 2007, 15).

1.2 WHAT IS THE INTEREST FOR ME AND THE OTHERS

On the toys or on the clothes, the label “made in China” has been widely written since several decades now. But how can it be possible that people in Europe own products that have been produced on the other part of the world? It seems so far away and a process so complicated to put in action. But after few years of relocation, the methods have been acquired and did not seem to represent any problem to implement. On the other hand, people also asked themselves if this phenomenon will length forever or if

one day there was a chance that companies come back to developed countries in order to produce their goods.

One day, the case of a French company named Rossignol has been mentioned in the news. In fact, this company had decided to bring back its production from China to France. It is at this moment that I understood that maybe this phenomenon of come back or more commonly known as backshoring, will maybe arrive sooner than we could imagine.

This topic is interesting because it concerns everybody. In fact, it is for example pretty common to know somebody who lost his/her job because of a relocation or a restructuring of a company and if no, we all already bought at least one time in our life, something which has been produced in China or in one of the several developing countries used to relocate. So if the companies had to change their methods of production and to leave Asia, everybody will be concerned by the consequences of their choice.

1.3 EXPLANATION OF THE PLAN

In this thesis, I will answer to three main research questions, which are:

- ⤴ What is relocation?
- ⤴ What are the main reasons that push companies to relocation?
- ⤴ What encourage companies to backshore in their home country?

In fact, I think that to understand a topic, it is important to understand the main notions that are approached. That is why in the second part of the thesis, I define different important terms as relocation, near-shoring or outsourcing in order to clarify the framework of the topic.

But before, I think that it is important to explain in a first part, the methodology which has been used to write this thesis in order to better understand its all layout.

In the third part of the thesis, I tried to provide information on the relocation phenomenon concerning for example its history, the different kinds of host countries that are existing, the sectors that have been concerned by this phenomenon and also the reasons, which encourage companies to relocate abroad. To illustrate this theoretical data,

I will present in the fourth part of this thesis, different cases of companies that relocated abroad.

The fifth part fills the role of transition between the two main parts of this thesis, which concern the relocation phenomenon and the inverse one: the backshoring phenomenon. It also contains the findings of a questionnaire directed to consumers in general in order to know what do they think about relocation, its future and if they think that companies will come back in their home country.

In a logical sense, the reader will find in the next part all the explanations concerning the inverse phenomenon of relocation, the backshoring phenomenon. A general definition is provided as well as explanations about the different steps of backshoring and the reasons, which incite companies to backshore.

The last part of this thesis will present different cases of companies which decided to come back in their home country. It will be the occasion to see if what has been found in the theory, is also applied in real cases.

2 METHODOLOGY

The thesis is structured around two main parts which concerns:

- The relocation phenomenon
- And
- The backshoring phenomenon

For both of them, theoretical data and practical data have been found but by using different methods.

2.1 FIRST SECTION: THE RELOCATION PHENOMENON

Two main subparts, with a first one that is more theoretical and a second one that is more practical, form this section. In both of them a quantitative method of data collection has been used through different kinds of resources as books, previous thesis, academic, online and newspapers' articles.

I chose to use this method in the first subpart of this section, because the goal of this first subpart was to provide some theory to the thesis. So it was the easiest way to get a lot of data and to make it possible to compare them in order to ensure the veracity of their information.

The second subpart of this section is more practical, because it will present three cases of French companies, which decided to relocate in China. I decided to use a quantitative method of data collection for this subpart because I already knew in advance that no companies would agree to answer to a questionnaire on this topic. In fact, the relocation phenomenon has got a lot of media attention and is responsible of numerous losses of jobs, so it has a general bad image for people. Thus, I preferred to use newspapers' articles in order to write this subpart, which is always a source that can be trusted because journalists always have to check their information before publishing them. The articles were also coming from different newspapers in order to compare the information and to check a second time its veracity.

2.2 TRANSITION PART

In order to do the link between the two main parts of this thesis those have been presented at the beginning of this methodology's part, a transition part is provided. Most of the information of this section has been collected in the same way as the first part, which is related to the relocation phenomenon. The only difference appears at the end of the section and concerns the collect of information concerning the general point of view of customers about relocation.

Indeed, in order to get this information, a questionnaire directed to them has been designed and addressed to a panel of 200 respondents who have been contacted through Facebook and by personal emails. It included 19 questions with three opened questions and the rest were closed questions. Concerning the opened questions, they were not aided in order to give the possibility to the respondents to express themselves freely. Concerning the closed questions, a lot were dual choice ones (choice between two possibilities of answers) and other were multiple-choices questions but with each time only one possible answer. Often, the respondent could add an extra comment or explain their choice thanks to the presence of an extra textbox. Of course they were not obliged to fill it and it could represent an additional effort to do, which could have discouraged people to fill the questionnaire. But finally, a lot filled it and it has been really useful for me in order to interpret the findings. Some questions were also made of categories that had to be ordered, ranked or chosen by respondents. The questionnaire has been designed on the website Kwicksurvey, because it is easy to use and it also permits to create a specific link, which directed people, who received it, directly on the questionnaire. Finally 53 people answer to the questionnaire, which represents a rate of 26%.

It has been decided to use this method of primary data collection because it was the best way to be as close as possible from the reality.

2.3 SECOND SECTION: THE BACKSHORING PHENOMENON

This section has been designed on the same basis as the first section, which concerned the relocation phenomenon. Indeed, two main subparts, with a first one that is more theoretical and a second one that is more practical, form this second section. Also the same quantitative method of data collection has been used concerning the first subpart

of the section, which also had for goal to provide some theory but in this case on the backshoring phenomenon. Concerning the second subpart of this section, the first method that wanted to be used in order to collect information, was a questionnaire directed to companies that already went through a backshoring process. Thus, a questionnaire of 23 questions has been designed.

Numerous emails have been sent to various companies as Smoby, Atol, Meccano, Genevière Lethu, Rossignol, Majencia and Le Coq Sportif to get the contact information of a person who will want and be able to answer to the questionnaire. Unfortunately, no company expressed its willingness to answer provide this contact information and thus to answer to the questionnaire. Indeed, half of them replied to me that they were not interested and the other half did not answer to me. Emails have also been sent to Edouard Bally, a journalist author of a TV-report on the backshoring of French companies and to Yves Jégo, who created the label: "Origin France Guaranteed". But also in these cases, no answers have been received.

Thus, in absence of positive answers and because I found that it would be really interesting to have examples of companies to compare the theory with the reality, I chose to use a secondary method of data collection. In this way, in order to constitute three cases of companies, newspapers' articles have been used as in the second subpart of the section one and for the same reasons.

The main advantage of using different kinds of data collection is that it gives a really clear and broad overview of the topic. In fact thanks the theoretical data, I have been able to get general information on the topic and thanks the empirical data, I have been able to have concrete examples in order to illustrate what did I find in the theoretical part.

What limited me to go further is first the lack of time available to realize the thesis. In fact, if I would have disposed of a longer period of time, I would maybe have tried to find other companies to contact or would I have tried to be more precise on some aspects. But I think that finding contacts to answer to the questionnaire directed to companies was the most difficult part of this thesis.

3 DEFINING AND UNDERSTANDING RELOCATION

3.1 DEFINITION OF RELOCATION

After few researches about the topic, I found different interesting definitions of relocation which are the following ones:

▲ “A first really large approach consists to talk about relocation as soon as there is a substitution of a foreign production to a domestic production to satisfy the same demand.” (Aubert.P and Sillard.P, 2005, 7)

▲ “The relocation is defined as the closure of a production unit in the home country, followed by its reopening abroad with the aim of reimporting on the national territory all or a part of the outputs produced at a low cost, and/or continuing to provide the exported markets from the new implantation. It is very concretely about a "moving" of the production unit, via a direct investment abroad” (Fontagné.L and Lorenzi.J.H, 2005, 12)

▲ “Relocation is a microeconomic event which has macroeconomic effects” (Chanteau.J.P, 2001, 103)

All these definitions are quite close from each other even if they all focus on a different component of the relocation process. In the first one, the emphasis is done on the substitution aspect of the relocation of the foreign production to the domestic production. While in the second one, it is on the movement of the production unit from the home country to the host country and in the last one, it is more about the effects involved by the relocation itself.

But for the rest of the thesis, we will consider that the definition that we will keep in mind is the second one and will ignore all the other interpretations of this term. Also, in order to consider that there is a relocation, two conditions are needed:

▲ First the home company has to greatly reduce the amount of its workforce during a short period (maximum 3 years) and then; the reduction has to represent at least 25% of the initial amount of workforce (Aubert.P and Sillard.P, 2005, 14). This reduction can be the result of a significant reduction of the workload or the closing

of the plant which are both possible consequences of the relocation of an activity abroad: what is not more done at home, is done abroad.

- ▲ At the same time, the amount of the imports from abroad concerning the same kind of goods, which were produced in the home country, increases in a significant way and during a long period (more than 2 years). (Aubert.P and Sillard.P, 2005, 14)

3.2 DEFINITION OF OTHER IMPORTANT TERMS

The relocation word is often confused with other terms which are often linked to the topic but which sometimes do not mean the same thing. In the following parts, I will try to define as precise as possible these different terms in order to show in which way they are different or similar from the relocation term.

3.2.1 Outsourcing or Contracting out

“Outsourcing means the transfer of the tasks and the structures of a company to a third party. It is an artificial word which has been created out of the English words "outside", "resource" and "using" and means the usage of external resources” (Klank.A, 2007, 12).

It means that the company is no longer taking care of one or several internal activities and it delegated its/their realization to another company that is external to the company. Outsourcing does not precise where the activity is contracted out, which means that it can be done by a company situated in the same country or one, which is situated abroad. In this case it could be a relocation but only in this one, not if the subcontractor is situated in the same country as the home company. It exists different kinds of outsourcing, which are:

- ▲ Total Outsourcing: 80 % or more of the business activity is done by a subcontractor
- ▲ Total Insourcing: 80 % or more of the operations are done internally by the company itself.
- ▲ Selective Outsourcing: when it is neither total outsourcing nor total insourcing, it is selective outsourcing (between 21 and 79 % of the operations are outsourced). (Klank.A, 2007, 13)

3.2.2 Offshoring

The term offshoring is used to designate the outsourcing process that is taking place abroad. It includes two situations:

- ▶ In the first one, the production of goods or services is transferred abroad to an affiliated company of the parent company. It means that the production activities are always done by the same company but at a different plant than the home company and abroad. In this case we talk about offshore in house sourcing and it is on this point that offshoring differs from outsourcing.

- ▶ The second one involves also the transfer of the production of goods and services abroad but to a company that is not affiliated to the parent company.

In this case we talk about offshore outsourcing, which corresponds to an outsourcing case, which happen abroad (OECD, 2007, 15). Thus, the term offshoring can be assimilated to the term relocation if its goal is to reduce the costs of the company.

3.2.3 Production options for an enterprise

So, to summarize the different options that the company has concerning its production according to the two previous parts; the following table is useful to clarify the different ideas.

Table 1: Production options for an enterprise or group of enterprises:

Location	Internal production (in-house)	External production (outsourcing)
Within the country (domestic)	Production within the enterprise and the country → domestic in-house	Production outside the enterprise but within the country → domestic outsourcing
Abroad (offshoring or cross-border)	Production within the group to which the enterprise belongs but abroad (by its own affiliates) → offshore in-house sourcing in the sense of relocation abroad	Production outside the enterprise (or the group) and outside the country by non-affiliated firms. This involves foreign subcontracting → offshore outsourcing or subcontracting abroad

Source : US Government Accountability Office (GAO)/UNCTAD (2004). *World Investment Report, 2004*. OECD (2004). *Information Technology Outlook*.

The cases in which we can talk about relocation are the two, which are taking place abroad:

- ▲ Offshore in-house sourcing in the sense of relocation abroad
- ▲ Offshore outsourcing or subcontracting abroad

3.2.4 Near shoring

The phenomenon of near shoring is characterized by the fact that companies offshore in a neighbouring country. It has the advantage to reduce the travel costs, the possible cultural differences and the time difference (time zones). For French companies near shoring locations could be the Eastern Europe as Poland or Czech Republic or the Maghreb states. For an American company it would be most likely Mexico (Koning.L, 2010).

3.2.5 Foreign Direct Investment

Relocating somewhere involves the transfer of productive infrastructures from the home country to the host country. But it also implies at the same time, a flow of capital to the foreign country in order to ensure the establishment of the new plant and all the process of relocation in the host country.

However, all transfers of capital towards a foreign country cannot be considered as implicating a relocation in this foreign country. In fact a flow of capital can be operated

from a country A to a country B without involving the reimportation of the production B to the country A. In this situation, according to the definition that we chose to take into consideration at the beginning of this thesis, we cannot consider to be in a situation of relocation.

The distribution of Foreign direct Investment is done globally and does not take into consideration the final destination of the trades. Thus, it can be used to relocate but also to finance new activities or to build a new plant independently of the original one situated in the home country. It can also be used to conquer a new market, which in this case, does not implies the reimportation of the production in the home country and thus can as well not be considered as a relocation. (Aubert.P and Sillard.P, 2005, 10; Chanteau.J.P, 2008, 26).

3.3 STRATEGIES-TYPES OF RELOCATION

Because of the influence of the media, for most of people, there is only one type of relocation. It has mostly for goal to decrease the final cost of the product in order to be able to offer it at a low price to the final customers and also to do a greater margin. Most of the time, this kind of relocation involves the reduction of the employment within the company or directly the closure of this one. But actually, different types of relocation exist depending on the motivations of the company that wants to relocate.

3.3.1 Offensive relocation

When a company decides to relocate in an offensive way, its essential goal is to increase its existing market shares. To reach this aim, the company will concentrate itself on the activities on which it is the best, which means its heart competences and will relocate the other activities. In this way, it will allow it to accelerate its development. (Fontagné.L and Lorenzi.J.H, 2005, 12; Chanteau.J.P, 2008, 40).

3.3.2 Defensive Relocation

While a company which decides to relocate defensively means that: first it does not want to relocate abroad, but the aggressive competition to which it has to face obliged it to do it in order to be able to keep its market shares. This situation usually happens when a company which is located and produces in the home country, cannot

more compete with the incredibly low prices that its competitors are able to offer thanks their relocated plants in the developing countries (Fontagné.L and Lorenzi.J.H, 2005, 149; Chanteau.J.P, 2008, 40).

3.3.3 Structural Relocation

When a company relocates in a structural way, it means that it completely reorganizes its activities among its different existing sites. Thus, some activities will have to be moved from one site to another site but will continue to belong to the same company. The goal in this kind of relocation is to gather activities that are linked together in poles in order to be more efficient and competitive (Chanteau.J.P, 2008, 46).

3.3.4 Support relocation

A support relocation takes place when a supplier or a subcontractor follows its contractor because this one decided to relocate somewhere else (Fontagné.L and Lorenzi.J.H, 2005, 149).

3.3.5 Expansion relocation

In this case of relocation, the goal of the company is not to reimport the outputs produced in the foreign country. Its aim is to answer to a local demand that represents a market opportunity. Thus it enables it to expanse its business and to acquire additional market shares on a new market. Usually in this kind of situation, the parent company opens a new plant in the foreign country and does not really affect the domestic production (Mérenne-Schoumaker.B, 1998, 258).

4 INVESTIGATION OF THE RELOCATION PROCESS

4.1 HISTORY OF RELOCATION from 1960 to 1990

The first cases of relocation appear quite soon after the opening of the borders of the countries during the second part of the 1960s (Chanteau.J.P, 2001, 100). International collaboration and co-operations between companies from different countries began to take place and to widespread.

During the 1970s and 1980s, the phenomenon has progressed significantly and reached new sectors like the electronic one for the general public as well as the toys and the optical. It is during this phase that the phenomenon really began to become an important one and will not stop to extend itself.

But in the 1990s, the phenomenon slowed down, because some developed countries as France reinvested in the process of their home production in order to maintain their economy. In addition, the relocation process has become more regulated by technical and commercial constraints. Nevertheless, it did not stop the phenomenon to extend it to other sectors which were not concerned by this phenomenon before (Chanteau.J.P, 2001, 100).

In fact, as we saw before, there are different types of relocation that concerns different sectors of the economy. The primary sector has not been really concerned by the phenomenon of relocation yet. Indeed, it is quite hard to transfer this kind of activities and sometimes everything can just not be produced somewhere else, because it needs the local conditions and a specific geographical situation in order to be done in a well way (i.e: Producing cheese).

On the other hand, the secondary sector is the one that has been affected the first and which continue to be the most concerned by this phenomenon. Actually for some companies this solution of subcontracting or relocating is so much interesting that they decided to use it for all their production activities. Thus they do not have anymore production sites and concentrate themselves on other activities where they are more competitive. For example Nike is a company without proper production units. This kind of solution seems to be really advantageous in term of costs because usually the third part, which takes the responsibility to realize the activity, is normally more specialized than the

contracting company. But it is also really risky because nothing depends on the company itself anymore.

Concerning the tertiary sector, it has begun to be concerned by this phenomenon later than the industrial sector, but it also knew a quick progress. In this way, calling centres, accountability activities and research activities began to be relocated abroad (Aubert.P and Sillard.P, 2005, 3).

But in the context of this thesis, when we will talk about relocation, it will only mean industrial relocation. Thus relocations concerning the primary or the tertiary sector will not be treated in this thesis.

4.2 INFLUENCE AND CONSEQUENCES OF INTERNATIONAL COMPETITION ON THE MARKET

The international competition changed all the rules: highly volatile markets, rapid technological breaks, and shortened product life cycles are now parts of the everyday life of every company. Each of them is seeking to cut costs, spread risks and gain flexibility and responsiveness in order to continue to be competitive on a market that is more and more aggressive.

In order to reach this goal, companies are constantly reconsidering, redefining and concentrating their core competencies to focus themselves on the activities where they are the best in order to develop a competitive advantage. Concerning the other activities of the company, they are increasingly subject to be relocated to external suppliers (Faust.M, Voskamp.U and Wittke.V, 2004, 24).

For some companies, it turned out that resisting to this aggressive international competition and continuing to be competitive on the market was no longer possible. Thus, as consequence of this opening of the economies to the world, number of companies did not have any other choice than closing, because too fragile to compete (Aubert.P and Sillard.P, 2005, 3).

For the ones, which succeeded to stay in the competition and to keep their production units at home, pressure was added on the home workforce and any demand to

increase the wages or to get more holidays were not more in the agenda. Indeed, the amount of available work began to be less and less important for this category of workers who were seeing their jobs moving from Western Europe to Eastern Europe or Asia.

As consequences to the international opening, the small companies have been more inclined to close and disappear from the global framework while the large groups have tried to reorganize their activities or relocate abroad in order to stay competitive (Aubert.P and Sillard.P, 2005, 22).

4.3 ASPECTS MAKING RELOCATION POSSIBLE and STAKEHOLDERS OF RELOCATION

In order to make relocation possible, three factors are necessary: technological factors, factors linked to the demand and political factors. To deepen these three notions, each of them is explained in the following parts.

4.3.1 Technological Aspects

To ensure the good implementation of the relocation process, it is important that some physical infrastructures are well developed. For example it is better when an important network of transportation ways is available. It can concern the number of roads, railways, airports, ports which are present in the concerned country. As well the good development of telecommunications on the spot is really essential.

Indeed, it will allow them to move and communicate rapidly in order to be able to answer as quickly as possible to the demand. In addition, considering that relocating often involves a long way back for reimporting the goods in the home country, any chances to reduce the time of production, transfer or delivery has to be taken into consideration and to be seized. In fact, a too slow answer to the demand could drive to the lost of market shares.

4.3.2 Aspects linked to the demand

The problem with the consumers is that they always want to get the lowest prices possible on the market and at the same time, they would like that it could be possible that

companies keep their production units at home. In this case, it is impossible to satisfy the two conditions.

Either, companies produce at home but the prices would rise and then the customers would not be ready or simply able to afford some kinds of goods; or, the companies produce abroad. In this case, they will be able to offer products at a low price. But at the same time it would not provide jobs at a regional scale because all the productive activities would not be situated in the home country. Face to this choice, most of the companies chose to relocate in order to decrease its costs and stay competitive on the market.

4.3.3 Political Aspects

In order to make a relocation possible, it is important that the politics of the possible host country welcome this kind of procedure and facilitate its implementation. It can be through the simplification of the administrative procedures concerning the set up of the company, the helps provided by the government to encourage its development or also the preferential tax system available on the spot compared to the one present at home (Chanteau.J.P, 2001, 90).

This kind of factors, a lot of countries understood how it could be interesting for themselves to implement these rules, as the new industrialized countries in Asia and Maghreb and in Eastern Europe. Not only to attract companies on the short term, but also to ensure the development and the evolution of the country on the long term. Because having companies on the territory, does not only means that they will only bring new products on the market. In some cases it is even not the case. But what is relevant with the implementation of companies, it is that it brings jobs to the population and thanks to these jobs, people will earn money and will be able to invest in the economy by shopping more or by building a house for example. Thus they will spend also their money in other companies, which will have for consequences, the evolution of all the economy. In addition, with the know-how acquired in the new plant, people will become more and more qualified and will therefore be able to maintain their knowledge, transfer, improve or diversify them. Therefore, relocating somewhere provides not only advantages to the relocated company but it also provides advantages to the host country.

It is in this way that these three factors are important to take into consideration. Indeed, if nothing is done to facilitate the set up of companies whether it is concerning the transportation, the communication or through the politics of the host country, no companies will try to settle down even if other factors are interesting. It would represent too many efforts.

4.3.4 Stakeholders

The companies are not the only actors in the phenomenon of relocation. The government hold an important role as well as the employees and the unions. Indeed, relocating somewhere does not only involve the company itself but also all the actors with which it interacted before deciding to relocate (Fontagné.L and Lorenzi.J.H, 2005, 11).

When we talk about government, we could wonder, which role it has in the relocation process and how it could be affected by it. First, when a company is relocating, it has to be taken into consideration that employees in the home country will be fired. So the government will have to provide them money until they find back a job while when they were working, they were potentially subject to pay taxes and in this case to bring money to the government. The other thing is that in case of relocation, the government will not more perceive the taxes from the employees but also from the company. It represents an important amount of money, which will not be reinvested in other fields of the economy.

In the relocation process, the employees are usually the first ones who are suffering, because it implies that they are losing their jobs. In addition when a company decides to leave a region, it is usually hard for the employees to find back a job because they are generally not qualified for any other job and the number of companies that offer this kind of jobs tend to disappear or to also relocate as consequences of the globalization. The unions are also concerned when we are talking about relocation because they are usually present within the companies in order to ensure the respect of the employees and to get for them more advantages or to ensure fair rules.

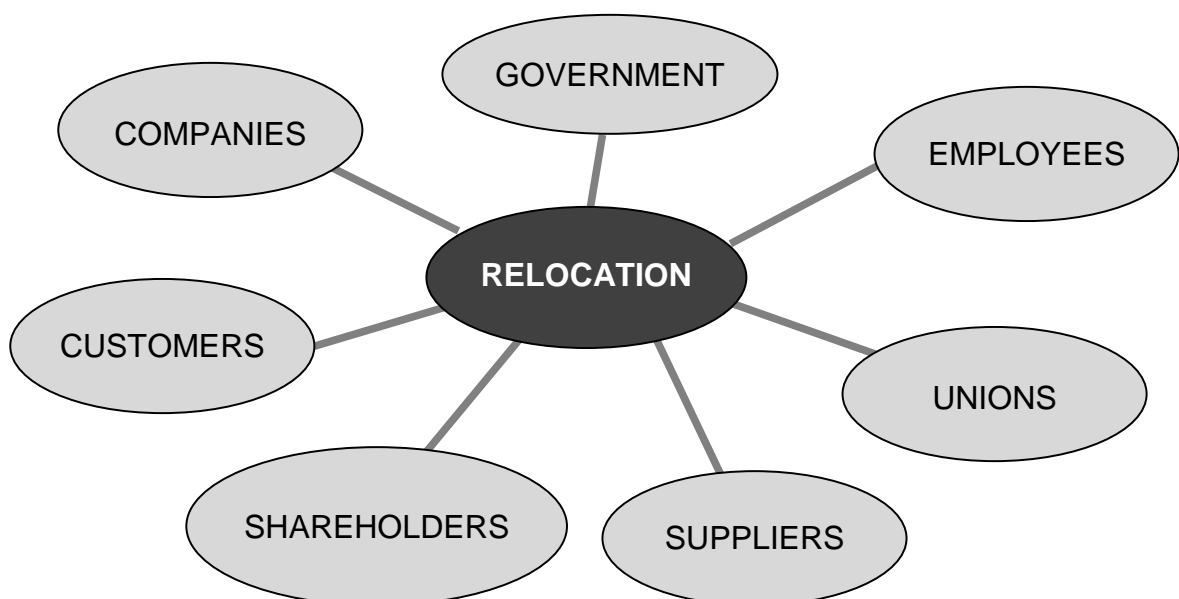
But other kinds of actors are usually forgotten. For example the suppliers are also players that directly suffer of a relocation process because it implies that it loses its clients unless it follows them in their process of relocation (it often happens when a supplier has one main client which represents the essential part of its turn over). In the

case of the supplier decides to stay in the home country, it has to deal with this lost by trying to increase its cooperation with its other clients or to try to find another one which could replace the one which left. Anyway, it will affect its capacities of development and evolution because it will be in an unstable situation for a while.

Another kind of actors that is often forgotten is the shareholders of the company. How are they implicated in the process of relocation? Is the company always asking them their authorization to relocate or not? It is an issue that is particularly interesting when the company is owned by many small shareholders. Indeed in this case, none of them has an enough large weight in order to influence the decisions. It is only if they agreed to form a group that they will be able to have a real power in the final decisions.

The last category of actors that is often forgotten is simply the customers. Indeed, more and more of them feel concerned by the phenomenon of relocation. They are usually well informed on the topic and pay more attention of what they are buying. For example, some people will prefer to buy tomatoes produced in their home country instead of tomatoes produced abroad even if they are a bit more expensive. Of course this kind of behavior does not influence a lot when we have a look at a small scale, but if the majority of the populations had the same way of thinking, it could change a lot of things. Finally, customers have a lot of power in the decisions of companies because it is often according to their behavior that companies take their decisions.

Figure 1: Actors of the relocation phenomenon



4.4 HOST COUNTRIES

A lot of people are thinking that when we are talking about relocation, it always means that jobs are living the home country to be relocated in Asia where the majority of the low wages countries are situated. But the reality is different. In fact the choice of the relocation country does not only depend on the labor costs but also on other factors that will be explained further.

4.4.1 Choice of host countries

First, when a company considers that it would maybe be beneficial for her to relocate, the question is to know where to do it. Thus, the company itself has to know exactly what does it needs to ensure its success, which factors are the most important in order to guarantee its well development. When it defined them, it will be able to focus its researches and to know exactly which kind of location does it want and which kind does it not want.

Then, the company would have to do a list of criteria to which, potential host countries would have to fit if they want to have the chance to be chosen as partner. The criteria would most likely be about the attractiveness of the location. For example:

- ⤴ Is it expensive to acquire a land in the country? If there are differences between areas, from what do they come from?
- ⤴ Are the transportation network and the telecommunications network well developed in the country?
- ⤴ What about the competitors? Is the market completely saturated or is there always place for new arrivals? How are they operating on the spot? Can the company use the same method?
- ⤴ What is the behavior of the government towards companies, which decide to relocate in its country? : Does it encourage them or on the contrary does it try to make the process of relocation as difficult as possible?
- ⤴ Is there an important amount of skilled workforce available on the spot?
- ⤴ How high is the cost of production and are there a lot of raw materials available for the production?
- ⤴ How are difficult the administrative procedures in order to settle down in the country? Are there some special rules or something else that the company has to know before taking the decision to move there? (it can be any information about the

country itself which could alter the smooth running of the company).

So, it is important to notice that deciding to relocate is not a decision that the company has to take lightly. It has to weigh the pros and cons in its situation in order to be really sure that it is the right decision.

It also has to take into consideration in its choice, the access of the market: is it close or not. Performance indicators of the location like the productivity and the quality of the processes are also crucial information that the company has to know (Dr.Holz.R, 2008, 31).

After having taken all these criteria into consideration, the home company establish a first list of potential host countries before doing its final choice. Often, the network in which it operates has usually a great importance in the final choice because it is always more comfortable to work in a familiar environment than in a totally new one (Chanteau.J.P, 2008, 46). Thus, the partners, suppliers are any other actors that are related to the company can play a role in its choice of the host country. The history of the company can also affect its choice (Dr.Holz.R, 2008, 27). For example if it already happened to the company to work with people from other nationalities for a project and that it did not work, they might not want to relocate in this country. Indeed, they already know that they would face important cultural problems and that it would affect their productivity and the welfare of the company.

4.4.2 Current Host Countries

Contrary to what the majority of people think, the current host countries are not only developing countries situated in Asia. They can also be developed countries situated in Europe for example. In fact as we saw before, the decision to relocate or not, does not only depend on the criterion of the low-wages, but also on other factors that we approached in the previous part.

Actually, a bit less than the half of the relocations are done towards developing countries while the rest concerns relocations towards developed countries. Indeed it is an information which is quite surprising for a lot of people, because most of the time only relocations which are towards developing countries are mediated in the news. That is why people think that there is only this kind of relocation, even if in the reality it is not true (Aubert.P and Sillard.P, 2005, 21). To have a better representation of the situation, the following table is a good illustration.

Table 2: Main countries of destination of French relocations:

Low-wage Countries		Developed Countries	
6370 (47%)	Jobs relocated per year in percentage	7175 (53%)	Jobs relocated per year in percentage
China	30	Spain	16
Brazil	8	Italia	15
Morocco	8	Germany	14
Tunisia	8	The United States	13
Czech Republic	6	Belgium	10
India	5	The United Kingdom	8
Poland	5	Netherlands	7
Viet-Nam	4	Switzerland	4
Romania	4	Portugal	2
Bulgaria	3	Ireland	2
Indonesia	2	Sweden	2
Turkey	2	Finland	1
Venezuela	2	Japan	1
Malaysia	1	Others	5
Madagascar	1		
Guinea	1		
Lithuania	1		
Hungary	1		
Russia	1		
Others	7		

Lecture: During the period 1995-2001, an average of 6 370 jobs have been removed each year because of relocations towards low-wages countries. Among these job losses, 30% have been relocated in China, 8% in Brazil etc.

Source: Aubert.P and Sillard.P, 2005, Délocalisations et réductions d'effectifs dans l'industrie française, page 21.

Based on the table 2, the relocations are more concentrated in the developing countries than in the developed countries. Indeed, concerning the low-wages countries, China is the favourite host country of relocation far in front of the other destinations. While concerning the developed countries, five of them represent almost 70% of the destinations of relocations.

We can also say that the list of possible low-wages countries is more exhaustive than the list of possible developed countries concerning relocation. Indeed, the list of low-wages countries is constituted by 19 countries while the one of developed countries, is constituted by only 13 countries.

Developed countries are mainly from the Western Europe apart the United States and Japan while developing countries are represented by the new industrialized countries as well as countries from Eastern Europe.

4.4.2.1 Developing countries

China is thus the principal destination of relocation concerning low-wages countries. The other target regions are situated:

- ▲ In the north of Africa represented by the Maghreb countries: Morocco, Tunisia,
- ▲ In the Eastern Europe, represented by emerging countries as: Poland, Czech Republic, Hungary, Romania and all the others,
- ▲ In the rest of Asia with for example Indonesia, India, Viet-Nam, Cambodia, Laos and so on,
- ▲ In Brazil and all the new industrialized countries: Russia, India, South Africa (Maetschke.L, 2009, 3).

The main goal of the companies when they choose to relocate in these countries is always the same and consists into reducing the cost of production that has become too high in their home country. Concerning the relocations in China or in India for example, some companies also decide to relocate there because they think that it can represent a future market opportunity for them. The sectors, which are more concerned by this kind of relocation, are the ones that do not need a qualified workforce as for example the textile industry.

When companies relocate in developing countries, they often prefer to subcontract to a local supplier than doing it by themselves. Indeed using this solution permits the company to reduce its risk to encounter problems, because the local supplier knows how to do business on the national market of its country (Aubert.P and Sillard.P, 2005, 35).

4.4.2.2 Developed countries

The developed countries, which are preferred to relocate activities, are usually the ones that are situated in the neighborhood of the home country. For example for France, the neighboring countries, which could be used to relocate, would be: Germany, Belgium, Italy and also Spain (Chanteau.J.P, 2008, 39).

People are usually wondering why companies are ready to relocate in a developed country that sometimes has a cost of wages higher than in the home country. In order to understand this logic, it is important to remind that the international competition created by the phenomenon of globalization, forced the companies to restructure their activities in

order to continue to be effective. It is in this sense, that relocations in developed countries are logical.

Indeed, instead of having several times the same unit of the company located at different places in the world, an important amount of companies decided that to reduce their costs, they would remove all the doublons of the company and will centralized the activities at the parent company (Aubert.P and Sillard.P, 2005, 21). In most of the cases, the parent company was situated in another developed country, which explains the phenomenon of relocation towards developed countries.

The sectors that are mostly concerned by relocations towards developed countries, are the concentrated ones as the automobile industry, the aircraft manufacturing and the pharmacy (Aubert.P and Sillard.P, 2005, 26). In these cases, companies will prefer to use subsidiaries in the host country than subcontracting.

So finally, as we can see, it is not because the average hourly costs is 28 euros in France, 24 in the United States, 4 in Mexico and in Brazil and 1.5 euros in China (Fontagné.L and Lorenzi.J.H, 2005, 60) , that all the relocations are done towards developing countries.

4.4.3 Focus on China

China is the third largest country in the world and represents a population of 1.3 billion of inhabitants. Its capital is Beijing but the largest city is Shanghai. In China, more than one hundred languages are spoken which can give an insight of the complexity of the country.

China, is a country which is situated in a really advantageous geographical place because in the middle of the East Asia. In addition, it has the chance to have ocean borders, which also allow it to trade through waterways with any other country.

Because more than 1 billion of people are living there, China represents also an important amount of potential workers for the foreign companies. In addition, it is constituted of a lot of space, free of any infrastructures that are only waiting that companies settle down. These great capacities in term of workforce and space, explain how could China be able to offer really interesting prices to companies.

In front of this situation, it is totally understandable that firms did not hesitate to go there and to settle down their plants. In addition, China is situated in an expansion area where the growth rate is higher than anywhere else in the world (Messow.F, 1997, 14).

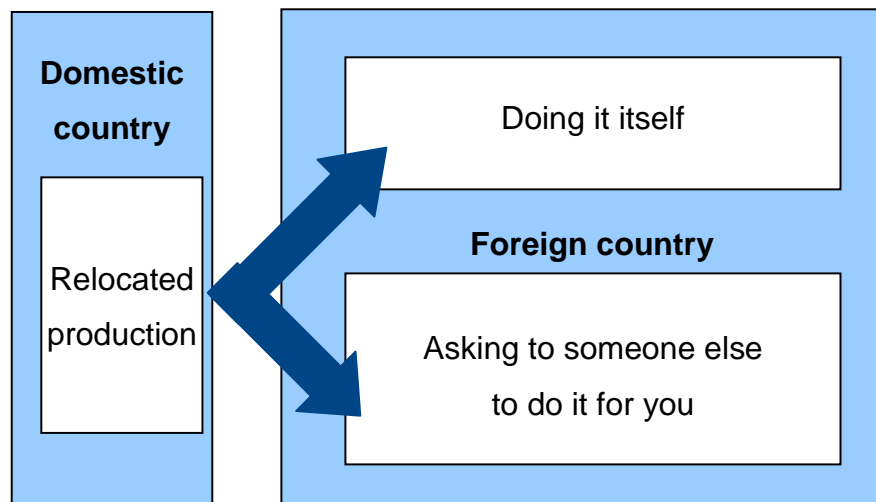
Because of these different factors, it became in a short time, the principal destination of relocation in the world far ahead its competitors that are Eastern Europe, North Africa, South America and the rest of Asia. More than being the principal destination, it became the absolute reference (Fontagné.L and Lorenzi.J.H, 2005, 16) in the field of relocation because able to offer really attractive prices comparing to other countries. For some people, we can just do everything in China, there are no limits of possibilities and it is what it makes it so interesting.

Thus, foreign direct investments in China increased from 2% in 1983 to 12% in 1992 (Messow.F, 1997, 11). But it is not the only thing that increased. Indeed, between 1993 and 2003, its GDP raised of 214% while in France it raised only of 16%. It also began to be a really important actor in the imports of a lot of developed countries. If we take again the example of France, the weight of the Chinese exports to France augmented of nearly 56% between 1993 and 2003 while the Chinese imports from France stayed at a rate of 1.5% of the total of the French exports, which is really not a lot (Aubert.P and Sillard.P, 2005, 4).

4.5 MODALITIES OF RELOCATION

When a company engages itself in the process of relocation, the first question is always the same: Does it want to realize itself the activity in the host country or does it want to subcontract it to another company? The two possibilities are illustrated in the following figure (Figure 1).

Figure 2: Empirical modalities of relocation:



Source: Chanteau.J.P, 2001, Délocalisations et emploi : faux débats et vrais enjeux, page 89.

If the company decides to do the activity by itself, it means that it will engage itself in the process of the creation of a subsidiary abroad. If the company decided to ask to someone else to do it for it, it will engage itself in the process of subcontracting.

4.5.1 Definition

First, I think it is important to clarify what means creating a subsidiary and subcontracting, because they are the two most important words in this part. It is essential to understand their meaning in order to understand the way of thinking of the companies that decide to use them in their process of development.

4.5.1.1 Creating a subsidiary

It means that the home company is opening a physical unit in the host country in order to execute activities that were previously done in the home country. Most of the time it is the production unit that is relocated. The particularity in this modality of relocation is that the new unit situated in the host countries, always belongs to the first company. Thus, we call the home company: the parent company and the company situated in the host country: the subsidiary.

4.5.1.2 Subcontracting

It means the outsourcing abroad of an activity which was partially or totally previously done at the home country. As we saw before, outsourcing means that the company gives the responsibility to a third part to realize the activity. The only difference between outsourcing and subcontracting in this case is that outsourcing means that the third part is situated in the same country as the home company while subcontracting means that it is situated in a different country.

Today, the term subcontracting is also used in a general way in order to indicate when a company outsources, but in this thesis, we will do the difference between the two words.

In this way, subcontracting means also no foreign investment abroad and no move of any production unit to another country (Fontagné.L and Lorenzi.J.H, 2005, 12). It represents a real advantage for the parent company because in fact, everything is done by a company that is already present in the host country. On the other hand, the parent firm does not have any more the control on the realization of this particular activity, which means that a really strong confidence has to exist between the two companies: the contractor and the subcontractor. But most of the time, subcontracting contracts take place between firms that already know each other thanks to previous co-operations or partnerships on other projects. The risk of complications is thus decreased (OECD, 2007, 17).

It has also to be notice that whether in the case of the creation of a subsidiary or the use of subcontracting, it will at least imply a decrease of the number of employees who were responsible of the specific production, if it is not the total closing of the unit production of the company, which means that nobody anymore is working in this particular unit.

4.5.2 Subcontracting, Co-operation or Partnership, what is the difference between these three terms?

To begin, it is important to know that there are two different categories of subcontracting. The first one concerns the subcontracting of goods and services of low technological content. It means that there is no need of qualified workers. The other

category represents goods and services with a high technological content. It means that it needs skilled and qualified workers and is constantly subject of evolution because submitted to an innovation process.

According to the category chosen by the company to operate, the relations with its subcontractor will not be the same. In the first one, it is really easy for the contracting company to find a subcontractor because its products do not need a special know-how or knowledge. While in the second category it is an aspect that is really essential. Thus the contracting company will be more inclined to build closer relationships with this kind of suppliers which means that they will create a kind of partnership subcontracting together (OECD, 2007, 18).

The difference with a partnership is that in cooperation agreements:

“The partners often establish financial links between them (mutual capital investment) and seek through their cooperation to share costs and risks, notably in research and development, or they undertake to jointly develop a new technology” (OECD, 2007, 18).

4.6 SECTORS CONCERNED BY RELOCATION

At the beginning of the phenomenon of relocation, the activities that were relocated did not need a high level of skills. Thus, the first sectors that have been concerned are the ones of low technologies as: toys, clothing, shoes and printed circuit board assembly.

But after few decades of relocation (around 20 years), workers in low-wages countries as in Southeast Asia and East Asia (Taiwan, Malaysia, and South Korea); began to acquire numerous skills. Thus, the relocation of activities requiring a level of knowledge higher began to be also possible (Maetschke.L, 2009, 3) and other sectors started to be concerned by this phenomenon. Some examples of high technological sectors can be: electronics and appliances in the home furnishings industry (Aubert.P and Sillard.P, 2005, 26). Finally, almost all the industrial sectors are now concerned by the phenomenon of relocation even if there are more or less large variations among them. In this way, we can say that there are three main sectors concerned by the phenomenon of relocation, which are the following ones:

- ▲ The clothing, leather goods and textiles,
- ▲ The components of electrical and electronic equipment.
- ▲ Household equipment (including appliances and toys industry)

4.6.1 The clothing, leather goods and textiles

This sector is one of the first that has been concerned by the phenomenon of relocation and continue to occupy an important place in this process. Currently, almost a third of the relocations towards low-wages countries concern the textile industry (including clothing and leather goods). 30% of these relocations are towards North Africa like in Morocco and Tunisia, which are two well-known countries to be the textile centres for the developed countries. Other countries welcome also relocations in this sector as for example Asian countries as Pakistan, China, Viet-Nam, Bangladesh and Eastern European countries as Romania. Thus, most of the productive units of the developed countries left their home country to find a more advantageous environment to work (Aubert.P and Sillard.P, 2005, 31).

4.6.2 The components of electrical and electronic equipment

The second most important sector in term of relocations is the sector of components of electrical and electronic equipment. In this sector, the destinations of relocation are fairly shared, but three areas represent the majority of them. In this way, this kind of products are mainly relocated in Eastern Europe especially in Czech Republic, Asia with China and again North Africa. They also began to be relocated a bit later than the previous category of goods, because this kind of products requires a minimum of knowledge in order to be produced in a well way (Aubert.P and Sillard.P, 2005, 31).

4.6.3 Household equipment

Concerning this sector, the host countries for its relocation are mainly China en Poland. It also includes the production of household electrical appliances and the industry of game manufacturing and sporting articles, which can explain why we find on a lot of toys for children the mention “made in China” and not “made in Brazil” for example (Aubert.P and Sillard.P, 2005, 31).

4.6.4 Sectors and their destination of relocation

Table 3: Sectors and their destination of relocation:

Sectors	Main destination of relocation
C1: Clothing and leather	Morocco, Tunisia, Viet-Nam, China
F2: Textile industry	Rumania, China, Italia, Mexico
E3: Electric and electronic equipment	China, Czech Republic, the United States
F6: Electric and electronic components	Italia, Spain, China, Morocco
C4: Household equipment	China, Poland
C3: Pharmacy, perfumery, maintenance	Switzerland, The United States, Germany, Ireland
F1: Mineral goods	Italia, Venezuela, Belgium
C2: Publishing, printing and reproduction	Italia
F3: Wood and paper	Indonesia, Brazil, Finland
E1: Aerospace, Naval and railway industry	The United States, Germany
D0: Automotive	Spain
E2: Mechanical equipment	Italia, Turkey, the United Kingdom, China
F5: Metallurgy and transformation of metals	Belgium, Brazil
F4: Chemistry, rubber, plastics	India, Spain, Netherlands
B0: Agricultural and food industries	Germany, Netherlands, Spain, Belgium

Source : Aubert.P and Sillard.P, 2005, Délocalisations et réductions d'effectifs dans l'industrie française, page 27

The previous table is a good summary of the previous points that have been approached. First it indicates all the sectors concerned by the phenomenon of relocations and especially are indicated the main categories at the top of the table. Then it also indicates the destination(s) of the products of these sectors: where are they now produced?

We can also notice that all the kinds of host countries are informed: developed countries like Belgium, the United States, Netherlands, Switzerland and Ireland; and developing countries like China, Venezuela, Brazil, Poland, Rumania and all the others.

This table also remember that some sectors are most likely relocated in developed countries and the others in developing countries. For example the sector of Pharmacy,

perfumery and maintenance is mainly relocated in developed countries (with Switzerland, The United States, Germany and Ireland). While the sector of clothing and leather or the one of household equipment are most likely relocated in developing countries like Morocco, Tunisia, Viet-Nam, China and Poland.

4.7 REASONS

4.7.1 Advantages of host countries

4.7.1.1 Labor costs: cheap qualified workforce

The advantageous labour costs in the host countries represent the factor that is the best known. That is why most of people think that it is the first and the only one reason why companies relocate abroad. In fact, it is the second most important reason according to the companies; the first one will be approached in the next point.

But to come back on the labour costs in developing countries, it is true that it is an encouraging factor to relocate abroad. But to determine a company to make this decision, it needs another factor that is the research of productivity (Chanteau.J.P, 2008, 42). Indeed, if the workforce is cheaper than in the home country but the employees in the host country are slower than the ones in the home country; relocating abroad would not be anymore relevant for a company. Thus it is the combination between these two factors that is one of the good reasons why companies choose to relocate. At the end, the cost of labour is taken into account in more than a third of the relocation decisions. It is currently the major reason concerning the defensive relocations (when a company relocates because it does not have any other choice if it wants to stay competitive on the market (c.f: part 1.3: strategies-types of relocation, part on the defensive relocations).

According to the Arthuis report of 1993, it is the international competition that made the wages in developed countries perceived too high. Indeed, before that we did not know that lower wages in other parts of the world existed. The rate of the wages in developed countries was not a problem. But with the internationalization of the economies, the scale of wages comparison changed from national to international. That is why comparing to the rate of wages in developed countries as in France or Germany, the rate of wages in China and in the other developing countries is much more interesting for companies.

In addition, even if the activities, which were first relocated abroad, did not need that workers are qualified, they acquired knowledge and know-hows over the years. In this way, after few years of relocation, companies had the chance to have an available cheap workforce that was in addition constituted by skilled employees.

Moreover in Asia especially, no government tries to limit the working hours per day and the wages they can earn. There were really comfortable conditions for the companies that can make their firm operates as long as they wanted. In addition, Asian employees are working harder than in Western Countries (Messow.F, 1997, 10).

Table 4: Differences of working time between Asian and European Countries:

City	Working hours per year	Paid holidays
Seoul, South-Korea	2,302	7.8
Bangkok, Thailand	2,272	8.8
Hong Kong	2,222	12.1
Taipei, Taiwan	2,136	17.0
Singapore	2,044	17.7
London, UK	1,880	22.1
Copenhagen, Denmark	1,669	25.0
Dusseldorf, Germany	1,682	30.5
Frankfurt, Germany	1,725	31.2
Madrid, Spain	1,721	32.1

Source: Messow.F, 1997, Asia in the future: a market to invest?, page 11

Here in the table, you can see the differences between the working hours per year in some Asian cities as Seoul in South Korea, Taipei in Taiwan or Hong Kong comparing to the ones of West European cities as Copenhagen in Denmark, Frankfurt in Germany or Madrid in Spain.

In addition, are also indicated, the average number of paid holidays in each city and country. In this way, we can see for example that in South Korea, people are working 1.5 times more than in Madrid in Spain or in Frankfurt in Germany. Employees in Copenhagen have 2 times more paid holidays than workers in Hong-Kong.

4.7.1.2 Production costs

Another reason, which is quite well known, is the willingness of the companies to decrease the cost of production of their products in order to be able to stay competitive on the market. To reach this goal, relocating in developing countries is a good solution. Indeed, because there are no limits of working time, the company can work longer than in developed countries where everything is regulated. It makes possible to produce more in less time and with the same tools, which makes the production costs decrease.

In addition, producing more in a shortest time, allows the company to reduce its fixed costs, which is actually the main reason why companies relocate (economy of scale) (Chanteau.J.P, 2008, 42).

4.7.1.3 Total reorganization of the firm

We saw that the host countries of relocation are not only the developing countries where the level of wages is really low. We know now that some developed countries are also used to relocate. This solution of relocation is also an answer to the international competition. Indeed, to continue to be competitive, companies decided to restructure all their activities on an international basis instead of on a national basis (Les dossiers de la mondialisation, 2006, 2). This decision has been made in order to be able to take into account in the decisions of the company, all the external factors that could influence its business. Actually, the external environment of the company has changed a lot: customers always want their products faster and cheaper and a lot of competitors already relocated abroad in low wages countries to be able to answer to this demand (Mérenne-Schoumaker.B, 1998, 265).

While some companies decide to follow this trend, other choose not to relocate in developing countries but in developed countries. Actually, when companies are choosing this solution, their goal is mainly to recentralize the activities near the original headquarters of the company. Thus, it is simpler to take decisions, because each part of the company has a precise activity to do, which makes things easier to understand and also to interact. When somebody from one department needs precise information from another one, he knows exactly where to go to get it. In this way, the company saves time, which also means money.

4.7.1.4 Asia: New market

Asia itself represents also a huge market principally because of the number of its inhabitants who represents more than a third of the global population. Indeed, thanks to the relocation phenomenon, the complete Asian area has evolved in all the sectors which began to create a lot of opportunities over the years. In this way, Asia was not more interesting only to produce but also to sell, which gave three possibilities to the companies instead of one:

- ▲ Producing in the host country and reimporting all the production in the home country,
- ▲ Producing in the host country and reimporting only a part of the production to the home country and selling the other part on the spot in Asia,
- ▲ Producing in the host country and choosing to sell all the production on the spot in Asia instead of reimporting (Aubert.P and Sillard.P, 2005, 5).

The additional advantage of the two new solutions is that it also permits to decrease the costs of the company because the amount of goods to import will be less important or will not exist at all if the company decides to sell everything on the spot. Thus the taxes of importation will be less important, the number of container will be less important, so the cost in general will be lower.

In this way, producing in low wages countries does not only mean that companies are there only for the low costs that they offer. They also produce there to be close to new markets, which may experience an expansion and which could be really interesting for the future development of the companies. It is also always better to be close to the clients, because companies can understand better what do they need and what can interest them (Fontagné.L and Lorenzi.J.H, 2005, 16; Chanteau.J.P, 2008, 42).

Producing and selling in Asia is also a way to follow the demand (les dossiers de la mondialisation, 2006, 2). Indeed, while the markets in developed countries are stagnating and the ones of Asia are beginning to rise, the companies did not need a long time to understand that Asia would be the next market where companies have to be if they want to make a lot of profit. Finally, one third of the relocation takes place because of this reason (Chanteau.J.P, 2008, 42).

4.7.1.5 Favorable Environment

In addition to all the previous reasons, Asia also offers a favourable environment to begin a business. Indeed, it provides low corporate tax rates and there are no taxes on capital gains, which help a lot to stimulate the creation of capital (Messow.F, 1997, 7). Indeed instead of 33% in France for example, in Hong-Kong companies only have to pay 17.5% of corporate taxes (KPMG, 2007, 5). Of course, companies have to face other restrictions according to the country they enter, but it represents always a great advantage for them to have to pay less taxes.

Moreover, Asia is characterized by minimal trade barriers, which encourages even more companies to export towards this area (Messow.F, 1997, 7). The commodities are cheaper than in developed countries (Ferreira.J and Prokopets.L, 2009, 20) and something which is also really important is that the exchange rates concerning the currencies in developing countries is favourable to the companies which relocate there.

Last advantage of Asia which is not the less important one, is that Asia offers the possibility to companies to have an access to innovative clusters and knowledge, which makes the foreign production destination even more attractive (Maetschke.L, 2009, 3). In this way it gives them the possibility to innovate on the spot without having to appeal the centre of research and development situated in the home country each time that they have to face to a problem or to adapt a product to the local market.

So as we saw thanks to all the previous information, the cost of the workforce is not the only reason, which explains why companies relocate in emerging countries. Indeed we saw that host countries are not only emerging countries but also developed countries where the wages are as high or even more than in the home country (Chanteau.J.P, 2008, 39). Then, the decision to relocate is also often encouraged by all the factors proper to the host countries: how is it easy to enter on the market, is the government encouraging this kind of procedure and are the other elements which have to intervene in the production process also enough cheap to be interesting?

But if companies are leaving developed countries, it is not only because emerging countries have only advantages. It is also because home countries present some

disadvantages for the well and fast development of the companies. These disadvantages are explained in the next points.

4.7.2 Disadvantages of home countries

4.7.2.1 Devaluation of the image of the industry in France

One of the problems in the developed countries, it is that the image of the industrial sector has been devaluated over the years by most of the people (les dossiers de la mondialisation, 2006, 2). Indeed, working in the production unit did not mean the same as working in the service unit of a company, because people who are in the production units have most of the time less qualifications than people who are working in the service unit.

The thing is that we are living in a world in which having diplomas and having a lot of knowledge is important and valued. That is why this way of thinking does not match with the fact to work in a production unit, where the work is always the same and which can be done by anybody. Today, people want to evolve in the society, get promotion, responsibilities and also always more money for what they do. It explains why the jobs in the industry to produce toys or clothes for example do not match anymore with the expectations of people and that is why it has been devaluated. In addition even if this kind of work does not need a lot of qualifications, it costs a lot for the company. That is why it also was easy for the companies to move it from high wages countries (developed countries) to low wages countries (developing countries). For the companies, which decided to stay in the developed countries, this devaluation made it harder to find people who would agree to do this kind of work.

4.7.2.2 Administration complexity

In addition to this devaluation of the image of the industry, it has to be admitted that the administration procedures in developed countries or at least in France are really complex and difficult to understand (les dossiers de la mondialisation, 2006, 2). Which documents do you have to fill to register, which organism is the most competent one for what you are looking for, what are the authorizations that you need before beginning your business, what do you have to declare to the government concerning your business? All these kinds of questions are always coming to the mind of people who want to start a business or own already one. And a lot of time, the problem is that they are not finding the

right people to who they have to talk or the office where they need to go is already closed at 3pm and they have to come back another day to have their information. All these disadvantages make things so much complicated than it does not give the desire to companies to stay if they find easier somewhere else.

4.7.2.3 Tax system and stagnation of the home market

Another disadvantage of developed countries is there tax system that does not benefit at all to the companies present on their territory. So again, if they have the possibility to find cheaper somewhere else, why would they stay in a country where they do fewer profits because they will have to pay more taxes?

In addition, the home market is already shared between its different actors, which makes it almost impossible for the company to get new market shares, except if it changes totally its strategy and be able to offer products completely different which will differentiate itself from the others. And it is usually what is happening when a competitor is relocating, because then it is able to offer products much cheaper than the other actors of the market and thus will be able to gain market shares if the other competitors do not react enough fast (Dr. Holz.R, 2009, 3).

4.7.2.4 A Competition too hard

With on one side the clients who always want their products faster and cheaper and on the other one, the competitors who begin to relocate and thus be able to purpose better offers to the clients; companies did not need more to decide themselves to relocate either. It is currently what corresponds to the defensive relocations and offensive relocations that have been explained earlier in this thesis.

Actually, this strong competition is only coming from the globalization. It put all the actors of all the sectors of the world face to face, which is responsible of this global reorganization. So finally for companies, relocating has been the best solution that has been found to survive on this global market where the competition never stopped to increase (Dr. Holz.R, 2009, 3).

4.7.2.5 Competition of developing countries and rigidity of home organization

The problem with the developed countries, it is that everything is organized, regulated and planned. For example in France, everybody knows that the shops will not open before 10am and will close most likely around 7pm, each employee has at least one day off per week, the number of working hours are limited to prevent abuses and each employee has the right to have 5 weeks of holidays each year.

Everything is so rigid comparing to developing countries where you can produce as much as you want and as long as you want. Thus, some companies are opened days and nights and are able to produce a lot of goods in a really short time. It makes so a great difference with the average of 8 hours of work in developed countries that it is obvious that companies prefer to relocate than staying.

5 EXAMPLES OF COMPANIES

The goal of this part is to illustrate the information that have been presented in the previous parts. Thus, three cases of companies, which decided to relocate, will be approached. First, we will have the case of the company Arena, a leader in the manufacturing of swimsuits. Then, we will have the case of Faurecia, which is an automotive supplier and to finish, we will see the case of SEB, which decided to only relocate a part of its production.

The information on these different cases have been found by reading articles in different kinds of newspapers.

5.1 ARENA

5.1.1 Presentation of the company

Arena has been created by the Group ADIDAS in 1970 (Le Point.fr, 2009). It is a specialist of the production of sport swimsuits and has sponsored a lot of famous sportsmen who made its reputation.

Arena was based in Libourne in France and employed 360 people in the world among who 160 were in Libourne. The group has been resold several times. First in 2001, by Adidas to the Italian investment company Investitori Italiani and then it has been resold in 2006 to BS Private Equity fund. These successive events did not prevent the company to become the number 2 of the world in its field especially thanks its numerous partnerships among which one has been made with the famous French swimmer Laure Manaudou. (Les Echos, 2006a)

5.1.2 Economic situation before relocation

Before deciding to relocate, the company was producing the majority of its manufacturing in France. Indeed, the raw material used to produce the sport swimsuits are really special and needed a specific know-how in order to be done in a well way.

But the competition with the other actors of the field and especially with the American Speedo became too much strong and the company decided to relocate. For the company, the main goal was to decrease the costs of production in order to be able to

invest more in the fields of marketing, research and development and communication, which would make it able to better differentiate itself from its competitors (Les Echos, 2006a; Usine Nouvelle, 2006a).

Numerous efforts have been made in the production site of Libourne in order to decrease these costs and to keep the company in France. But for the company, it was not enough compared to its competitors which already decided to relocate and which were able to offer prices almost 40% cheaper than Arena. So when the company noticed that its turnover decreased from 100 million euros in 2005 to 77 million euros in 2006, it decided to do as all its competitors and to relocate even if the company was always profitable (L'Express, 2008).

5.1.3 Relocation

The activities which were previously realized in Libourne in France, have been transferred in China and are now produced by a Chinese company named Hung Fat et Pacific Dunlop (Les Echos, 2006a).

5.1.4 Reasons of relocation

For the company it seems that the main reason of this transfer was that the plant of Libourne was not enough competitive which could threat the entire company in the future. That is why, in order to be able to offer cheaper prices and thus to continue to compete on the same basis with its competitors, the company decided to relocate to get lower production costs (Usine Nouvelle, 2006a).

But for a lot of other actors, the only one reason of this transfer was only to increase its margins in order to do more profits. Indeed, this hypothesis can be supported by the fact that the company was always profitable when it decided to relocate and it did not have major financial problems yet (Liberation, 2008).

5.1.5 Consequences

✧ Closure of the plant of Libourne

The decision of relocation implies the fact that the plant of Libourne has to be closed. The company notified this closure in 2006 few months before announcing its

willingness to produce abroad. The closure has been effective since March 2007 and all the employees, 169 in total, have been dismissed for economical reason (Marianne, 2008; Le Point.fr, 2009).

✧ Prosecution of the company by its former employees

Indeed, among the 169 employees of the company, who were mainly women, 96 decided to sue the company in court because they disagreed with the reason of their dismissal that was for economic reasons. According to them, if the company decided to dismiss them, it was not because of economical reasons, but in order to do more profits and margins thanks to low costs production available abroad.

The labour Court of Libourne agreed with the employees in September 2008 and condemns the firm to pay 4.8 million of euros for damages to the employees. It represents 50 000 euros per employee which corresponds also to 35 months of salary. According to the Court, relocating in low wages countries with the only goal to make more profits does not constitute a relevant reason of dismissal. In fact, it is written in the French labour code, that any dismissal must be justified by a real and serious reason. Dismiss employees to make more profit abroad, does not constitute a real and serious reason according to the Court. In addition, the court did not believe the company when it explained its relocation's decision by the fact that it wanted to invest the money saved by this transfer in marketing and communication. Indeed, the company is already well known worldwide thanks to the numerous sportsmen who have been sponsored by the company. So it does not need anymore to invest an important part of its budget in this field (Marianne, 2008; Liberation, 2008).

✧ The Appeal of the company ARENA

The company did not agree with the decision of the labour Court of Libourne and decided to appeal. But the Appeal Court of Bordeaux confirmed the decision of the Labour Court of Libourne and condemns the company to pay 3 million euros to its employees, which is a bit less than the previous amount agreed the first time (Les Echos, 2009).

5.2 FAURECIA

5.2.1 Presentation of the company

Faurecia, is an automotive supplier created in 1998. It is a subsidiary of the French automotive company PSA (Peugeot-Citroën) and is a European leader in its field (Le Figaro, 2009).

Faurecia is employing 60 000 people from 28 countries among who 22 000 are from France. Its main activities are concerning: the design and the construction of car seats, the emission control technologies and the interior and exterior automotive systems (Le Figaro, 2011a; Les Echos, 2006b; Le Parisien, 2009a).

5.2.2 Economic situation before relocation

After having played ten years in the automotive field without any major problems, Faurecia has to face the financial crisis of 2008. Indeed, this crisis had a lot of consequences on all the sectors but especially on the automotive one. In fact, it is easier to keep an old car and to buy a new one later than asking to the banker if it is possible to pay your loan later, when the situation will get better. That is why the automotive sector suffered a lot of this crisis, which made the European and American markets weaker. The volume of sales' cars decreased and had for consequences to also decrease the amount of orders of automakers like PSA and Renault which are the main clients of Faurecia (Le Parisien, 2008a; Les Echos, 2006b).

In this way, the automotive supplier registered a loss of 547,8 million of euros in 2008 with a turnover which decreased by 3,7%. That is why it decided that it had to reduce its costs if it wanted to stay on the market. It enters in a complete restructuring of the company, which include several social plans with the dismissal of an important part of the employees. This situation conducted to a lot of demonstrations initiated by the unions and followed by the employees. It also conducted to the retention of the CEO and two managers by the employees in April 2009, because they disagreed with the social plan initiated at the end of the previous year (December 2008) (Le Parisien, 2009a; France Info, 2009,).

5.2.3 Relocation

The process of relocation concerned all the activities of the company, which also means all the production's sites of the company. Thus, the site of Brières-les-Scellés near Etampes which was specialized in the production of car seats, was the one which was the most affected by the dismissal of employees: 405 employees were fired on 1 200. The department of research and development that was also present on this plant was also concerned by the dismissals and was reduced by half of its employees. The rest was relocated in Poland concerning the production part and in Hagen in Germany concerning the research and development department. The plant in Nogent-sur-Vernisson and in Cercy-la-Tour were also concerned by the dismissals with respectively one quarter of the 647 employees who has been fired in Nogent-sur-Vernisson and one third of the 409 employees in Cercy-la-Tour. The plants in Redon and Auchel have been closed. (Les Echos, 2006b; Le Parisien, 2009a)

Faurecia had actually for goal to eliminate 1215 jobs on a period of 3 years from 2009 to 2011. In fact, instead of producing in France where the wages are high, it preferred, as a lot of other automotive suppliers, to relocate in Eastern Countries or in Asia where the workforce is cheaper (Le Parisien, 2009b).

5.2.4 Reasons of relocation

Finally, there are two main reasons that explain why the French company Faurecia decided to relocate abroad. First, as it has been explained at the beginning, the European and American automotive markets in addition than being completely saturated, became weak because of the financial crisis of 2008. Thus, in order to continue to survive and to continue to be competitive on the market, Faurecia relocated a part of its production in low wages countries and especially in Poland and China. And it realized that the Asian market had a lot of potential concerning the automotive sector. That is why instead of only producing there in order to provide the European and American markets; it decided to also enter the Chinese market. In order to do it well, it decided to form joint-venture with local companies as with the main automotive supplier of the Chinese market: Changchun Xuyang Group, and with two other well known Chinese groups: Geely et Limin, with which, Faurecia formed really useful partnerships in order to develop and produce interior and exterior automotive systems (Usine Nouvelle, 2010a; Liberation, 2011; Le Figaro, 2010a).

Indeed, the Chinese automotive market became the first automotive market in the world in 2009, dethroning the United States with 13,64 million of cars sold on its territory (Le Figaro, 2010b). The phenomenon does not seem to want to decrease, that is why, Faurecia decided to make the Asian market a priority

Today, the company realizes two thirds of its turnover in Europe, but it plans to decrease this rate in order to invest more in Asia, where the market is booming. Indeed, in Europe, the market is suffering of the rise of raw materials' price, the pressure on the prices in general and the fact that because of the crisis, the clients often needed more time to pay back the company (Les Echos, 2006b). In Asia, these problems do not exist. That is why, in order to counter balance its situation, Faurecia decided to invest in this market

Today, the company owns 17 plants, 4 centres of research and development and employs 4 000 people. In 2009, it realized a turnover of 670 million euros in China and has the willingness to realize one of 1,7 billions of euros in 2014. Thus, Faurecia would fill its objectives and Asia would represent 15% of its turnover instead of its current 9% (Le Figaro, 2010a).

In addition, because of the crisis, French automakers as PSA and Renault, are also more likely to produce and provide them from suppliers situated abroad because it is cheaper. In this way, Renault is only producing 25% of its cars in France and PSA Peugeot Citroën, a little bit more than 47%. Thus, it makes the local demand (in France) even less important and also less interesting to produce there. That is why, producing and selling in Asia seems to finally be a good option (Le Parisien, 2010).

5.2.5 In the future

On the other hand, Faurecia plans to continue to grow on the Chinese market thanks to its different partnerships and joint ventures. It will actually build 3 new plants in china in collaboration with its local partner Changchun Xuyang Group. In these new plants will be produced car seats, interior systems and acoustic models for the brands of Geely in China (Usine Nouvelle, 2011a).

Other important thing to notice is that the former plant of Brières-les-Scellés, has been transformed in a sophisticated centre of research and development in which

Faurecia invested 10 millions euros. Its opening has been inaugurated the 6th of October 2011 and will have for goal to invent the car seats of the future. The centre will count 355 employees (Usine Nouvelle, 2011b; Les Echos, 2006b).

5.3 SEB

5.3.1 Presentation of the company

The company SEB (ex-Société d'emboutissage de Bourgogne) has been created in 1857 in Is-sur-Tille near Selongey by Antoine Lescure and is the world leader of the small electrical appliances.

It became well known all over the world thanks to its various revolutionary inventions as the Pressure-cooker and the electric deep fryer that made the reputation of the company. Thanks to this popularity, the company grown rapidly and has been able to acquire a major part of its competitors. Thus, SEB is a group which has 24 brands among which 6 are known globally: Seb, Calor, Rowenta, Tefal, Moulinex and Krups. The group has 10 plants on the French territory and counts 25 000 employees all over the world (L'Express, 2012a; Le Point, 2012).

5.3.2 Economic situation before relocation

While the company was not facing any difficulties and the market was quite stable, in 2005 a lot of Chinese products arrived on the market and change all the parameters. In fact, before their arrival, a basic toaster or electric kettle could be found for a price of 19.90€. But after, consumers were able to find Chinese toasters and electric kettles for only 4.90€. Because of these changes, a lot of appliance manufacturers decided to relocate in South-East Asia in order to be able to compete with these new competitors and to survive on the market (L'Express, 2012a).

5.3.3 Relocation

Even if the company is always producing 40% of its manufacturing in France, it decided as all its peers, to relocate a part of its production in Asia.

Indeed, in front of this new competition coming from Asia, the Group SEB decided to adopt a new strategy. First it decided to stop to produce basic models of products like electric kettles, coffee machines or irons in France and relocated them in China. Then it

also decided that in France, it would concentrate itself on doing innovation by investing more in the research and development department. This investment has for goal to create high quality products and maybe the next appliance that will revolutionize the life of the housewives of the world. This strategy is a good example of the current trends of globalization which tends to keep the innovation part and highly qualified works in developed countries and to relocate in low wages countries, the activities which do not need a skilled workforce (L'Express, 2012a).

This decision had for consequences the closure of 3 French plants of the company in 2006, which were situated in Syndicat (Vosges), in Fresnay (Sarthe) and in Dampierre (Jura). These closures represent 890 dismissed employees on the 7000 French employees which counts the company and respectively concerns the brands: SEB, Moulinex and Tefal. On the other hand, the company increased the production in its plants in Thailand and in China, which already produce 80% of the basic models of products of the company (Usine Nouvelle, 2006b).

SEB also continues to produce a part of its manufacturing in France because it counts on the fact that consumers will be sensitive to the fact that it is produced in France. Thus even the French products are more expensive than the Chinese ones, the fact that it is produced in France, ensures a certain level of quality for the consumer (L'Express, 2012a).

5.3.4 Reason of relocation

With the introduction of Chinese products on the market in 2005, local manufacturers are not more able to be competitive concerning the sell of basic products (Liberation, 2006a). That is why the company decided to relocate this part of its production and to keep the innovative and technological part of its activities in France, where it is easier to innovate.

However, even if already two third of the appliances' production is today done in China, the company has the willingness to increase this figure because it is actually developing new plants in the developing countries (Usine Nouvelle, 2010b). Indeed, the fact of going to Asia is not only explained by the lower costs of production, but also by the fact that Asia is going to represents a huge market in few years in all the categories of

products. Thus, by producing there, the company has the possibility to better know this market in order to be able in the future, to sell products adapted to the local needs.

Producing in developed countries these kind of basic products does not have sense anymore because in addition of having higher costs of production, the European market and the American market are already saturated. All the families already have all the appliances that they need that is why a new purchase only occurs when a previous appliance is broken. It might explain the decrease of the sales on the European market (Usine Nouvelle, 2006c).

On the contrary, the Chinese market is full of opportunities for the companies, which decide to go there. So instead of producing in France or in Europe where the consumption is decreasing, it is more interesting to produce and sell in Asia where the demand is high (Les Echos, 2006c,).

5.3.5 In the future

The company will continue, at least for now, to produce the innovative products in France and the basic products in China. The emerging countries will become a bigger part of the market of the company and their participation to the turnover will increase. In fact, in order to enter on the promising Chinese market, SEB decided to acquire the Chinese appliances' manufacturer Zhejiang Supar Cookware for 240 million euros. This acquisition represents a really good operation for the company and is actually a big step in the process of its restructuring (Usine Nouvelle, 2006b; Liberation, 2006a; Les Echos, 2006c). In France, the department of research and development will continue to imagine the new inventions of tomorrow, but will not anymore represent the main market of the company. In fact, some French employees are even worried of this Chinese acquisition and this trend of producing less in Europe because they are afraid to see all the company moving to China, which would have for consequences their dismissal (L'Express, 2012a).

Indeed, in 2009 only 40% of the SEB's products were produced in France while it represented 54% in 2006 (Usine Nouvelle, 2010b), so how much will it represent in the future? Will the company always want to keep its French market and production if it makes the majority of its profits in Asia? Will it continue to be relevant for the development of the company? There are for sure questions, which will come to the mind of the board of the company if Asia continues to develop itself in this speed.

6 STAKES WITHIN THE RELOCATION PROCESS AND SIGNS OF A STRATEGIC SHIFT

Thanks to the first part of this thesis, the definition of the relocation phenomenon has been clarified in order not to confuse it with other events related to the business world. The second part of the thesis has been useful in order to give additional information about what is the relocation phenomenon: history, because of which factors and reasons a lot of companies decided to relocate and also which are the host countries chosen for these relocations.

It is understandable that in front of only favouring factors as: “Lower wages, a stable global economy and rapidly growing markets” (McKinsey&Company, 2008), companies like Arena or SEB can only be influenced positively by the idea of relocating abroad. But after several decades of relocation and especially towards developing countries, this solution seems not to be as profitable as before. We will see in the following points, how can it be possible.

6.1 Why offshoring did not work for everybody

What is already important to remind is the fact that two kinds of host countries exist: the developing countries but also the developed countries. Most of the time, relocations that did not work are the one directed towards developing countries.

Indeed, in the other case when the relocation is towards developed countries, the goal is to re-centralize all the activities at the headquarters and not to get cheaper conditions of production. In fact, when companies decide to relocate in developing countries (with the intention to reimport the production), they tend to take this decision too quickly comparing to companies which relocate in developed countries which take more time to analyze all the parameters in order to be sure to take the right decision.

The phenomenon of relocation has been so well known in order to be the right decision for sure and for all kinds of businesses in order to reduce the costs that some companies decided to relocate with just a little or sometimes no understanding of what was really the process of relocation and what did it really implies. As consequences,

companies did not take into consideration the true costs of relocation. They did not see that it represented also risks which had to be anticipated as well as a lot of hidden costs linked to the phenomenon of relocation itself which had to be taken into account in the process of decision-making in order to ensure the success of the relocation. That is why foreign location advantages have often been overestimated in particular in their ability to get well performing plant as in the home country.

In this way, a lot of companies made the decision to relocate and had actually to face a lot of difficulties that they did not plan to go through, which did not make things easier but harder. In fact it is more difficult to resolve a problem when it takes place 9 000 kilometers far away from where the home company is situated. Relocating is a process which requires detailed planning as well as the consideration of what are the current and future challenges of the company and which strategy does it want to adopt to ensure its well development: in which direction does it want to evolve (Dr. Holz.R, 2009, 18). For example for the company Faurecia, it makes sense to go to China, because the constructors for who it worked before the crisis are now sourcing themselves in China. So why producing in France in this case?

6.2 Evaluation of the real overall costs of relocation

So, in order to avoid having to face this kind of problems, it is essential to evaluate in a well way what are the real overall costs. In order to reach this goal, two methods are possible which are the following ones (Maetschke.L, 2009, 4):

6.2.1 First method: taking into consideration different aspects

6.2.1.1 Economic aspects

When we are talking about economical factors it means that for example all the elements related to the labor have to be taken into account. Not only how much do you have to pay the workforce to have the work done, but also how are they effective, productive, are they qualified or not, what are the usual working hours, do they have holidays during the year, is it easy to find people who can match with your needs in terms of workforce.

Other economical factor is the capital: do you need to constitute a capital base to begin a business in the host country, is it easy to make profit, how high is the corporate tax rate. All these elements can already give a good overview to the company in order to know how is it easy to constitute a capital.

Of course, the present infrastructures and the level of technology are also part of the economic factors that have to be taken into account. If the communication ways are really difficult to use from one place to another, it will be really complicated to coordinate the realization of all the activities. Or if people are not used to the Internet for example, it would be really difficult to communicate with the home company in order to keep it aware of how the production is going on in the host country. Last point concerning the economical factors concerns the availability of natural resources needed for the production of goods. Indeed, if none of them are available on the spot, it means that the home company would have to import them which would represents additional costs which have to be also taken into account when making the final decision.

6.2.1.2 Political aspects

As we saw before, the political environment of the future potential relocation is really important and in particular the stability of the country. For example, it could be interesting to know if the country has been subject to a lot of wars or unstable governments before or if on the contrary, it has a system well established since a lot of years. Knowing also which institutions are present on the territory or to which institutions does the country belongs (WTO, GATT, another one?). It can give interesting indications to know for example how is open the country to create international links.

6.2.1.3 Cultural aspects

In the global world in which we are living today, we tend sometimes to realize that everybody does not share the same culture and that it can influence a lot the way to do business. For example the religion in Muslim countries as in Pakistan or

Bangladesh will change the way of doing business comparing to India where the majority of the population is Hindu.

The conception of the time and space has also to be taken into consideration. In fact in some countries, it is a proof of respect to be late, in others it is really important to be on time. For some people it will be normal to speak close to you in order to create a kind link, while for others, a distance between the two interlocutors has to be kept.

Some people are saying that these cultural factors are not important and that you do not need to take them into account before deciding to relocate. But actually, the way you are running your business can make you win or loss markets if you do not match with the local way of doing business. In addition it often happens that people do not know how to speak English, which raises the risk of misunderstandings between the two parties.

6.2.1.4 Demographic evolution

Last thing according to this first method that has to be taken into consideration, is the demographic evolution. Is the population becoming older and older as in Germany or is the country constituted of a majority of young people who could represent a good basis to form the workforce needed by the company.

Also interesting concerning the demographic structure of the host country is to know if the majority of the people are most likely living in the rural areas or are they living in the urban ones? In fact, it is always interesting to get this information because it gives you an idea of where is it better to set up your firm.

Last but not less important information in this category, is to know if the population is in general in good health: are they often sick, what are the principal diseases in the country which could affect the well development of the activities of the company as Aids, or other incurable diseases which could make workers too weak to be able to work.

6.2.2 Second method: taking in consideration different costs:

6.2.2.1 Transaction costs

This parameter is similar to the cultural factor from the first methods because it takes into consideration the cultural differences. For example concerning the business practices, following the countries; they are completely different and have a great importance if you want to succeed. To give an example, Indians like to run negotiations really fast and concluding meetings by an agreement, but in Western Europe, the stakeholders of a negotiation prefer to use all their time to take their decision because it is part of their business practices. Thus if an Indian company and a Western European company have to conclude a contract together, each part, have to be aware of the practices of the other part, in order to guarantee the success of their collaboration.

Other factor that has to be considered is the parameter of the language in the host country. As we saw previously in this thesis, in China there are more than 100 languages that are spoken but English is not the one that is the best known. So to prevent misunderstandings and possible mistakes (Koning.L, 2010), it is important to know that maybe if the company decides to relocation in this country, the managers will have to take more time to explain the different steps of the process or they will have to go in the host country more often in order to be sure that everything is in conformity with what has been agreed at the formation of the contract.

In the host country, usually companies do not know the market before considering going there. But it is important that before taking this decision, the company which wants to relocate does researches on the country: how many people are living there, what is there living standards, are there principally young or old people, how are the infrastructures, what is the political statue of the country. Finally it represents all what you have to know in order to success in the country.

6.2.2.2 Tariffs and non-tariff costs

In this category, we will find back the intervention of the government concerning for example the government trade barriers, the economic nationalism or the tariffs and the quotas at the borders of the country. In fact, we do not actually realize when we are only traveling inside Europe, but it is only possible within the Schengen space to travel from one country to another without having controls or having to pay duties. These additional steps in the process of exporting or importing have to be taken into consideration in terms of additional costs but also in terms of additional time.

6.2.2.3 Transportation costs

Transportation costs do not only include the fact of transferring goods from the company A in the country X to the company B in the country Y. In this case costs of the use of containers - if the transportation is done by boat or plane - and used oil to travel are taking into account but other costs are forgotten. Indeed, most of the time when a company decides to relocate in developing countries, it is usually in Asia and to export or reimport the goods to the home country, the solution which is principally used is the transport per boat because cheaper than using a plane. But the problem is that it takes a lot of time to send and to receive the goods from Asia which includes the fact that the company will not be able to react as quick as if it was producing in the home country if something has to change in the process of production or if new trend have to be taken into consideration. Other important fact related to the transport per boat is the consideration of the risks linked to this way of travel. For example, it is current that on some freight roads there is piracy and that all the production is lost. In this situation, it implies that the company will be for sure late in its delivery to its client, but also implies additional costs for the realization of a new production that also has risks to be subject to piracy if the company is using the same freight roads. So first the company lost money because it lost its goods because of piracy or it can also be because of another reason as a shipwreck for example. But in any cases, the company will have to do the same production again and will have to hope that the client will not break the contract because of late delivery.

6.2.2.4 Time costs

Thus to prevent piracy for example, some companies decide to use other waterways in order to be sure that their goods will arrive safe at their destination. When they are coming from Asia, the usual safest way to come back to Europe is to instead of passing near Saudi Arabia and Somalia, passing near South Africa. Thus, it makes the travel even longer and reduces again the capacity of the company to adapt itself in the short term. In this way, any problem along the road can be responsible of important delays in the delivery and sometimes clients will not accept them anymore because unsatisfied or just because it is too late to sell the products on the market. For example a company which is producing chocolate Santa Claus, first they need to be transported in special conditions in order to preserve the product but also if the goods are delivered after Christmas, it does not have any meaning to sell them on the market and if the company decides to do it, it will have to sell them at a reduced price and will loose in any cases a lot of money.

6.2.3 Other additional costs and factors

Additional costs and factors, which have not been taken into consideration in the previous parts, are for example the presence of underdeveloped infrastructures in the host countries. Indeed, it is not usual in all countries to have a really developed network of roads, airports, ports and railways. Sometimes, the roads do not exist and the company, which relocated, has to build them itself and to bear the costs that are engendered by this operation. Another point related to the underdeveloped infrastructures is for example the lack of electricity that is something which is not common in Europe but which can be in Asia. For example in Nepal, it is usual not to have electricity during the great majority of the day. But without electricity, it makes things really difficult for a company to produce something. That is why it is really essential to know it before relocating.

In developing countries, it is also usual to have a high turnover concerning the workforce because the working conditions are difficult and everybody cannot support them during a long period. It implies that the workforce has to be trained more often in order to match with the way of doing of the developed country. This parameter is also

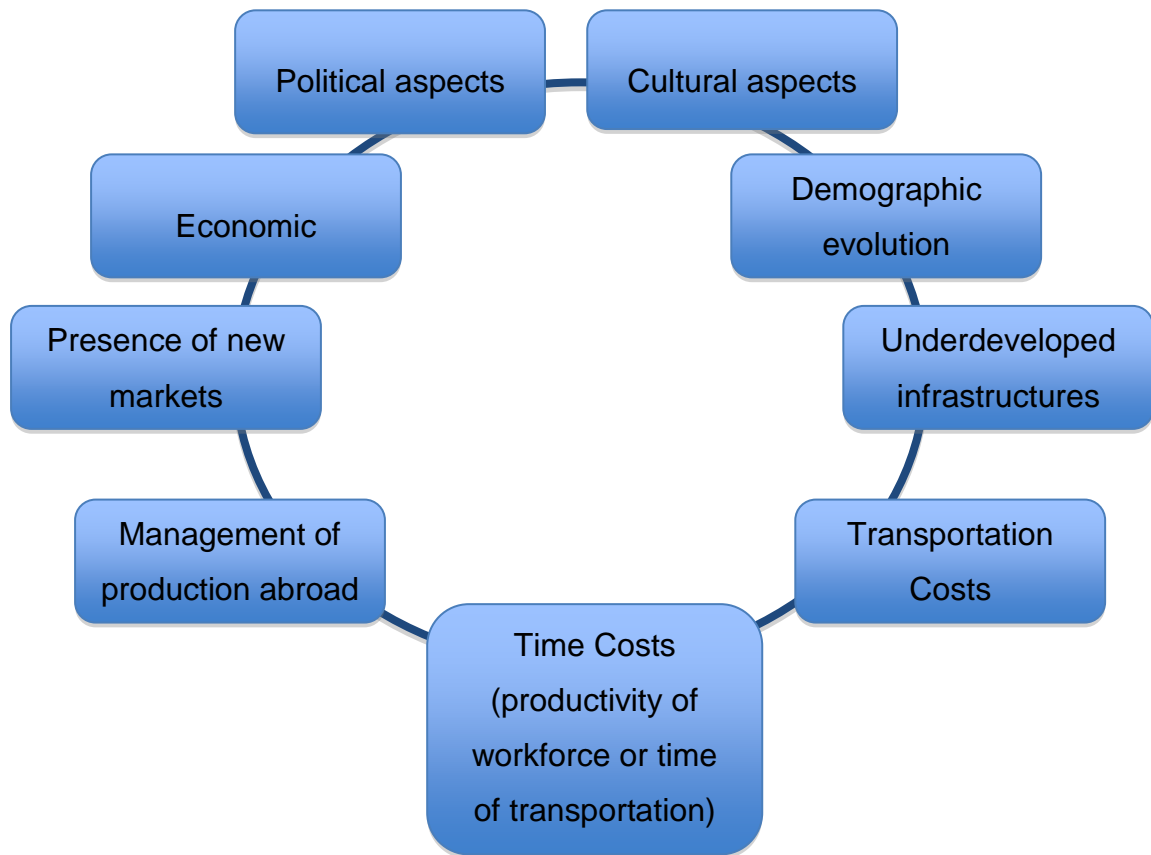
the cause of a low productivity and efficiency in the production, which extends even further the production time and delays the delivery date.

Finally, additional costs have also to be considered for the management of the production abroad. Indeed, the company will have to regularly send managers abroad in order to monitor the all process. But this close supervision of the overseas workforce is essential in order to ensure the well progress of the production process. One other thing, which has to be taken into consideration, is also the different time zones between the two locations that can also make things more complicated especially in terms of communication.

That is because of all these different factors that a company cannot take the decision to relocate just because a cheap workforce is available in the host country. Relocation processes that work are usually the ones when companies relocate for other reasons. For example following the demand, because of the presence of market opportunities in the host country or to follow its suppliers. But actually when companies are doing this, their final goal is not to reimport their production in the home country but to sell it on the spot in Asia to the local population. Thus the objectives are not the same (Maetschke.L, 2009, 15).

The next figure summarizes all the aspects that have to be taken into consideration when a company has the intention to relocate abroad:

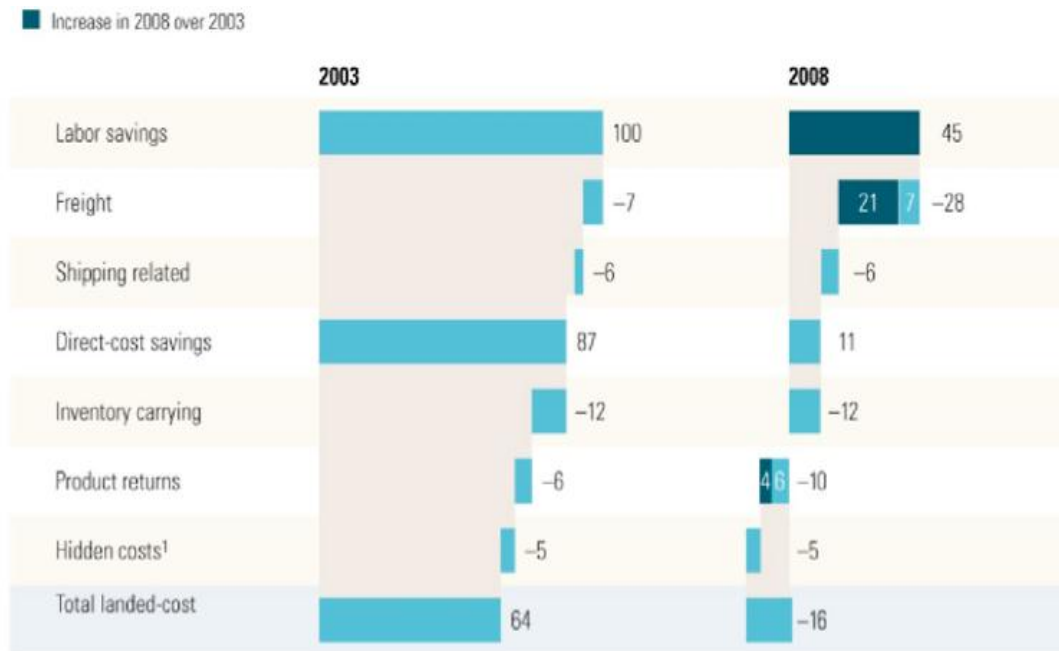
Figure 3: Aspects that have to be taken into consideration when relocating:



6.3 Today's conditions

The problem is that today, the conditions of relocation have changed and the benefits of this solution are not the same anymore. Relocating begins to be expensive and does finally not bring so much profit in return. Indeed, the costs benefits coming from low wage workforce are today not anymore sufficient in order to cover all the other additional costs caused by relocation (Wu.X and Zhang.F, 2011, 3). Thanks to the following graphic, we will better understand how it can be possible.

Figure 4: Total landed-cost savings or losses for producing midrange server in Asia instead of United States; index: labor saving in 2003= \$100



Source: Maetschke.L, 2009, shown in the article: McKinsey&Company, 2008, Time to rethink Offshoring?

This figure is showing a comparison between 2003 and 2008 concerning the costs of relocation. We see that on a basis of \$100 saved thanks to the low labor costs in 2003, this saving represents already only \$45 in 2008. Another increase concerns the price of the freight, which has augmented of 21% compared to 2003. The last increase is the number of product returns, which is higher in 2008 than 2003 by 4%.

We can think that it is not a lot, but when we add all these additional costs, we realize that at the end, we do not save \$64 like in 2003, but we loose \$16. That is why relocation is not more interesting for companies which want to produce goods for the markets of developed countries and why some of them decide to come back (Maetschke.L, 2009, 13).

6.4 What bring the fact to be in the home country?

First of all, the company may have higher labor costs, but on the other hand, it will not or at least will have minimum: freight costs, shipping-related costs, inventory costs or any other hidden costs as the building of a road or the installation of

electricity. Indeed, in the home country, there are already all the infrastructures needed and they are well developed. By being in the home country, the company would be closer to its market and will thus be able to answer more quickly to the demand of its customers and will also be able to provide a better service (Wu.X and Zhang.F, 2011, 2).

6.5 Two choices for companies

So companies have two possibilities, they can choose between:

1.Efficient sourcing which means producing in developing countries with low production costs. But it also implies that the production unit is far away from the home country as well as from its final market. Thus, it also involves that the company will have to invest more in the inventory, because of the long transportation lead times.

2.Responsive sourcing is the other possibility that companies have. It means that the company produces at its home country, which of course involves higher costs in some areas, but it also permits to the company to be closer to the market and to be more flexible towards the demand of its clients (Wu.X and Zhang.F, 2011, 3). In addition producing at home gives to the company an environment more stable, which could allow it to better, predicts the next changes.

In this way, we know today that for \$10 that are offshored, at least \$1 will be backshored (Maetschke.L, 2009, 32).

6.6 Development of Asia: increasing living standards

One of the consequences of the phenomenon of relocation is also the development of Asia. Of course, it would also have evolved without it but maybe not at the same speed. Relocation brought some knowledge and know-hows, which have accelerated this speed. Thus, workers began to ask for the increase of their wages and their living standards began to rise. In this way finding a qualified workforce at a low price appeared to become really hard. Over the years, the production costs also raised because of the price of the raw materials as well as the one of the different

components, which also augmented (Wu.X and Zhang.F, 2011, 2). Thus, companies as Arena which most likely relocated only to do more profits thanks to the availability of lower costs in China will maybe have to consider to come back to France if these costs are rising too much.

6.7 What are thinking the consumers about the future of relocation?

6.7.1 Methodology

It is important to know what are currently thinking the customers in general, because without them, companies could not developed themselves and become profitable. In fact, I think that if the customers knew more about the strategies used by the companies to produce, they would maybe not adopt the same purchasing behavior with some of them, because they would disagree with their way of doing.

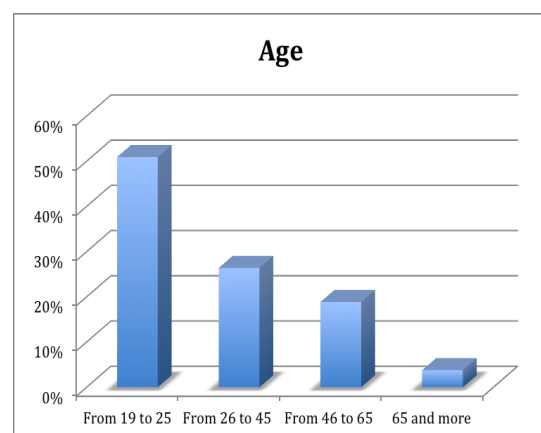
Thus, in order to be as close as possible from the reality, I decided to ask to people from different age and from different social economic classes, to answer to a questionnaire. The goal was to know their point of view on the relocation phenomenon, its future and if they thought that companies would come back home to realize their production.

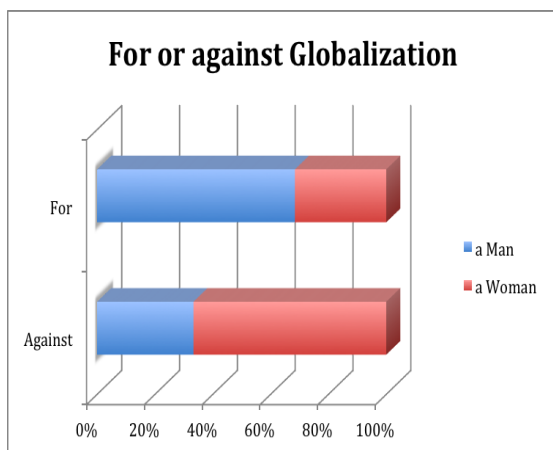
The results of this questionnaire are presented in the next part.

6.7.2 Findings

To begin, 53 people answered the questionnaire with almost 60% of men and 40% of women. The majority was between 19 and 25 years old and represented 51% of the respondents.

When we ask them, what do they think about the globalization; they are mostly for at 70%. But when we compare the answers with the gender of the respondents, we see that men and women answered





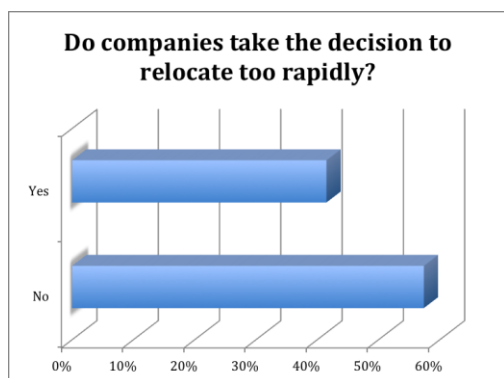
in an opposite way. While approximately two third of the men are for the globalization, the same percentage of women is against.

However, when we demand them to give more details, we discover that they do not have the impression to have the choice to be for or against. Indeed, it seems to be

a phenomenon which is growing everyday and on which we do not have a real control. Also, even if it creates a lot of opportunities, as trading internationally or creating new markets; it seems that it did not succeed to make disappear the gap between developing and developed countries.

Concerning the phenomenon of relocation itself, more than 80% (women or men) think that it is the result of the globalization and explain its happening by the existence of lower costs in other parts of the world. However, even if a majority of the respondents are for the globalization; concerning the phenomenon of relocation, a huge majority is against: 88% against versus 12 for. The respondents explain their choice by the fact that they think relocation is responsible of a higher level of unemployment in developed countries and the quality of the products produced abroad is low.

According to the panel of respondents, the countries that are chosen most of the time in order to relocate are situated in Asia (as in China or in India) or in the north of Africa. On the contrary, developed countries like Germany, Italy or Spain, do not



seem to be often chosen by the companies for their first choice to relocate according to the respondents. On this point, people think differently compared to what is the reality. Indeed, we saw in the theoretical part that 50% of the countries, which welcome relocations, are developing countries while developed countries represent the other half.

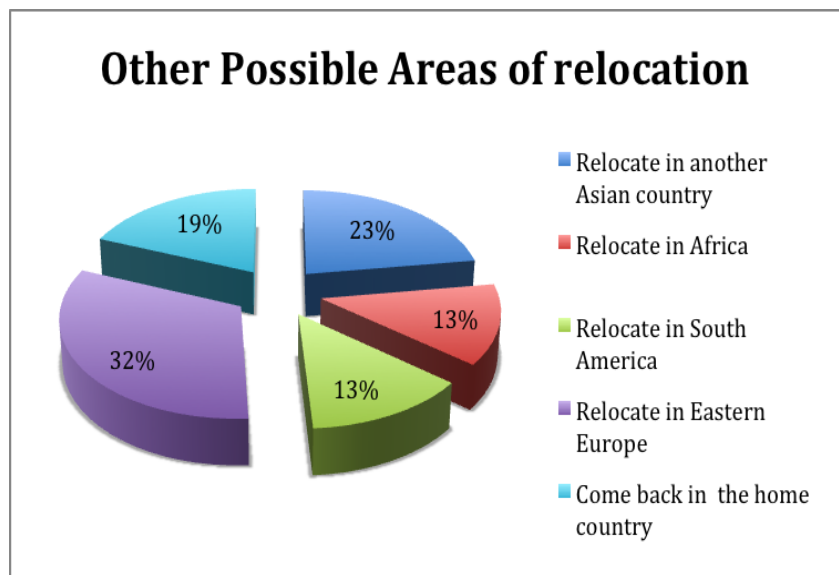
This vision of the reality can be explained by the fact that for the majority of people, if companies are relocating abroad, it is because the workforce is cheaper. Thus, it enables them to manufacture at a lower price and to be more competitive on the market that became international with the globalization.

Surprisingly, when we asked to people if they think that companies take their decision of relocation too fast, the two answers reach almost the same level. 40% agree that they are taking this decision too fast while only 60% think they do enough preliminary studies and analysis to be sure of their choice. The recent comebacks of companies that previously relocated abroad can maybe explain the important amount of answers “yes” to this question.

It can also explain the fact that two third of the respondents think there is a hope that companies which decided to relocate abroad few years ago, come back in their home country. They support their view by the fact that the parameters are changing in Asia (where the majority of low wages countries are): the salaries are increasing as well as the cost of transport. Besides, the quality of the Chinese products is much lower than the one of products manufactured in France for example.

So, it has been asked to the respondents, where do they think companies would go if they had to live China.

Half of the respondents indicated that companies would come back to Europe (Western or Eastern), because it is less far away than Asia. It



means lower costs of transport with always the availability of a cheapest workforce than in France, especially in Eastern Europe and in the North Africa where people are able to speak French, so it decreases the risks of misunderstandings.

The panel, which has been questioned, really believes in the potential of the industry in France. Indeed, it thinks by 70% that the phenomenon of backshoring, characterized by the comebacks of companies in their home country, will increase in the future. But if they are coming home, what could be the consequences for the home market? Would the unemployment rate decrease in a significant way, would it generates an increase of all the prices in general or nothing would change?

According to the respondents, the level of quality would be improved but the prices would also rise. But for three quarters of them, spend more money in a product does not represent a problem if it is produced at 100% in France.

The final question of this questionnaire was open and asked the point of view of respondents concerning the situation in 50 years. The common feeling is that Asia will be completely developed and will occupy an important position on the international market. It will be so powerful that it would not be interesting anymore to relocate there because the prices would not be attractive as they used to be. Thus, according to the panel, companies would prefer to come back home and to automatize of part of its production lines. Countries would also specialize themselves in certain fields of activities and the exchanges between countries would be on a more equitable basis.

7 BACKSHORING

Face to these new conditions, some companies decided to backshore, but what does it mean? It is what we will see in the next part

7.1 DEFINITION OF BACKSHORING

Backshoring is the inverse operation of a relocation (Chanteau.J.P, 2001, 88). It means that a production unit is repatriated from the host country to the home country (Caddell.J, 2010). Usually when companies decide to backshore, it is because the relocation process in the host country has failed or was not as profitable as the company was hoping (Maetschke.L, 2009, 16).

In order to affirm that a backshoring process is taking place, 3 steps have to occur (Maetschke.L, 2009, 16):

- ▲ In the first phase, the home company takes the decision to relocate abroad,
- ▲ During the second one, the production is relocated abroad and all the manufacturing activities are done abroad.
- ▲ And finally, after this period, the company decides to bring back all the process to the home country. Therefore, backshoring is a phenomenon that only occurs after an offshoring took place.

Depending on the situation, the company can decide to completely repatriate its production process in the home country or only one part. Usually, companies bring back only one part and then the rest of the production process step by step in a progressive way. It can also let some activities in the host country but not all of them.

When a company decides to backshore, it has different possibilities concerning the production unit. First one, it can fully integrate back the activities and functions which were relocated into the own production in the home company. In this case, we will talk about "Direct Backshoring". Or on the other hand, these same activities and functions will be repatriated in the home country, but will not be integrated into the local production. Instead, the home company will assign this responsibility to a third party. In this situation, it means that the home company will always not be the one, which will realize the activity itself, but it will prefer to hire a local supplier than one

situated in a developing country. In this case, we will speak about “Indirect Backshoring” (Maetschke.L, 2009, 16).

In order to talk about this new phenomenon, a lot of words are used as: backshoring, reshoring, backsourcing or onshoring. But in my researches for this thesis, I did not find any definition that could differentiate these words. Therefore, we will consider within the framework of this thesis that they will define the same phenomenon and thus be synonym from each other.

7.2 WAVES OF BACKSHORING

For some specialists, the backshoring phenomenon is only a trend that will not length in the time, but we can already count 4 waves of this phenomenon. So, can we always consider that it is only a trend in this situation? As we saw previously what was the point of view of people in general, it may be really interesting to know what are thinking the other stakeholders of the relocation phenomenon. But concerning this thesis, we will simply present the different waves in order to give an idea of the progression of the phenomenon.

7.2.1 First wave

It appears in the beginning of the 1980s with the automation of the production ((Maetschke.L, 2009, 17). In fact, thanks to this invention, instead of hiring 10 people to do one task for example, a machine could do it quicker and in a cheaper way.

The advantage with a machine is that the company does not have to pay all these costs related to the hiring of an employee as the social taxes or simply the wages. Instead, it represents of course a budget when the company decides to acquire one and it has to do regular maintenance to control if everything is working in a well way in order to avoid any accident, but on the other side, when these costs have been amortized, then it is a real advantage for the company.

Of course, this change is always not in favor of the employees who in one case or the other one will partly loose their jobs. But at least, this solution would allow companies to stay in the home country and allow them to hire a minimum of persons to monitor the work of the different machines.

The automation of the production has dropped the production price, which has for results to make home countries as competitive as the host countries. Indeed, because companies at home hire less people and replace them with machines, the advantage of developing countries to presents a cheap workforce does not have sense anymore.

7.2.2 The second wave

This wave is particularly important for the German industry, because it concerns the backshoring of German electronic industry that appears in the first half of the 1980s. Thus, companies as AEG or Bosch decided to come back home.

7.2.3 The third wave

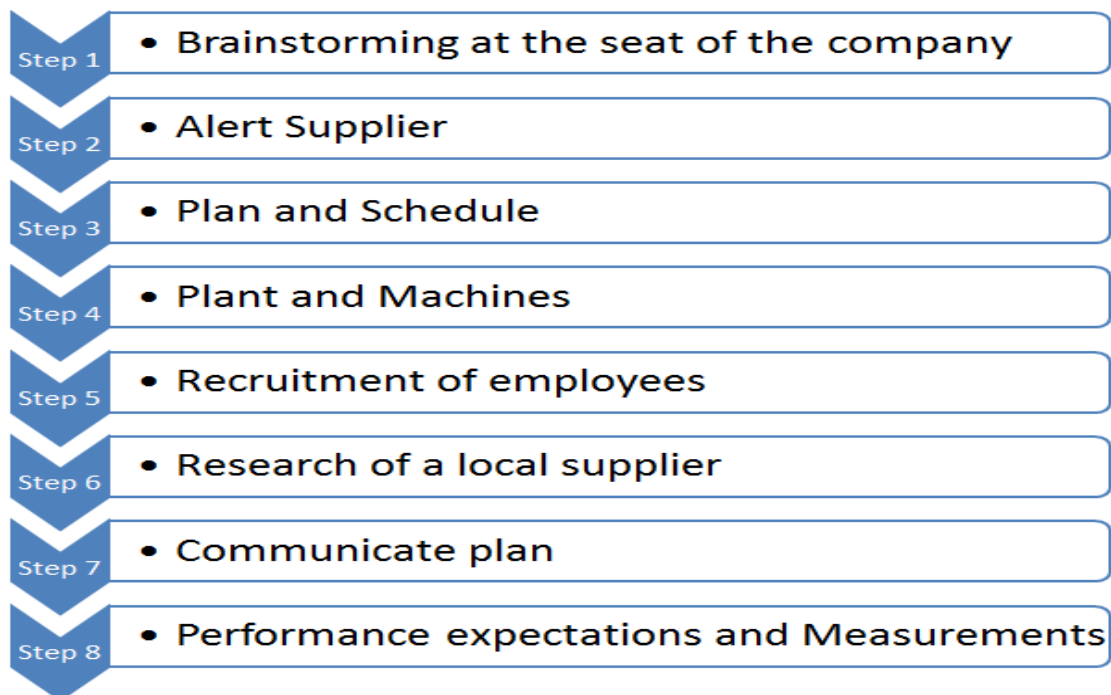
After the German companies in the 1980s, other European Organizations decide to follow the movement and backshore in the 1990s. These different organizations were in the sectors of electronics and computer but also in the textile and leather garment industry. We can thus quote some companies as Nathan for the toys, Sagem with the cell phone, Essilor for the glasses, as well as Kickers and Kélian for the shoes or the French brands Naf Naf and Caroll for the clothes.

7.2.4 The fourth wave

Concerning this last wave which occurs in the 2000s, it is a bit different than the other ones because contrary to the others, companies which decide to come back during this last wave, it is because something was going wrong in the host country. Indeed, in addition of the fact that the low wages workforce did not more represent a great advantage for the developing countries because of the automation of the production, other problems as quality ones began to occur. In this way, in order to avoid to loose their competitive advantage represented by the level of quality of the products that companies were able to offer, some of them decided to come back home, in order to ensure this level of quality by establishing closer quality controls in order to continue to be able to match with the expectations of the clients.

7.3 DIFFERENT STEPS OF BACKSHORING

When a company decides to backshore, it has to go through different steps in order to ensure the success of the process (Maetschke.L, 2009, 29).



7.3.1 Brainstorming at the seat of the company

First, before taking the decision of backshoring, it is important that the company considers all the alternatives that it has. That is why, a brainstorming at the seat of the company which would gather all the representatives of the company who can come from the accounting department, logistics one, human resources, legal one and all the others is necessary. During this brainstorming, each representative will have the possibility to express its point of view and purposes according to him, what is the best solution for the company. (Maetschke.L, 2009, 29).

It is interesting to have this kind of brainstorming, because each member is from a different background and see the company from a different angle. They will also bring their knowledge and their competencies with them and will thus be able to affirm if one solution is possible or not if it concerns their field of action.

Taking this kind of decision involves all the company. That is why it is a good start to expose the situation to all the stakeholders of the company in order to act as a team in which each actor will have its task to accomplish.

After this first brainstorming meeting, and if the decision of backshoring is chosen, it is important to plane other meetings with maybe only the key representatives. These meetings would woul be held with goal to maintain a link between each of them. It will also keep them aware of the ongoing plans of the backshoring process in order to they know how is going the progression of the transition and to ensure its success.

7.3.2 Alert Supplier

Of course, when the decision of backshoring has been taken, the next step is to alert the supplier in the host country of this decision. In order to keep good relationships with him, it is important to manage to do it in a well way, especially if the company backshore in several steps. In fact, the supplier could decide to stop to produce or not more paying attention if the goods are of good quality or not, which would be a real problem for the company.

7.3.3 Plan and Schedule

When the decision has been taken and the supplier in the host country is aware of it, the next step is to plan how the transfer process will take place. To do this, some questions have to find answers. For example:

- ▲ Is the company backshoring all the production or only a part?
- ▲ Is it doing it in one time or by several steps?
- ▲ How many months or years, does it give itself in order to succeed?
- ▲ Which kind of backshoring will it choose: direct backshoring or indirect backshoring?
- ▲ If indirect, does it already have ideas about potential local suppliers?
- ▲ If direct, does it already know where would take place the backshored production unit?

Asking itself this kind of questions is really important because essential for the success of the process. If a company is not able to answer to these questions before beginning the process itself, it does not predict anything good concerning its success.

In addition, it is also important that the company fixes itself objectives to reach in term of productivity, efficiency, and cost reductions in order to be able to see the difference with the previous situation offshore and to ensure the success of the backshoring process on the long term. In fact, by giving itself precise objectives to achieve, it permits to reduce the risks of failing the backshoring process.

7.3.4 Plant and Machines

If the company decides to choose direct backshoring, it implies that it will have to find all the furniture needed for the good installation of the new plant. For example, it will have to find a place where it could install it or the company will have to undergo a reorganization in order to proceed to a fusion between the production on place and the backshored production. Whatever with one or the other solution, the company will also have to find new machines or will have to import the one which are present in the host country but it could be more expensive than buying new ones because of the taxes and the transport cost.

All of this are also operations whose the cost has also to be taken into consideration in the decision making of backshoring, because they represent a huge investment.

7.3.5 Recruitment of Employees

Another problem is to find the right employees who will present the skills needed for the backshored production. It is and it will be even more a problem in the next years, because the majority of the employees, who had these skills when the companies decided to relocate abroad, are now retired or they did a training and turned towards another sector. Concerning the young people who could replace them, the problem is that they do not have any experience in the field and not a lot are interested by working in the industry, which does not make things easy.

7.3.6 Research of a local supplier

But the company has another option if it does not find all the elements that it needs to produce itself. In fact, it can always outsource this activity to a local supplier. The advantage in this situation is the fact that the company does not have to invest as much as if it does it itself and on the other side, it would permits it to better control the production because not situated far away anymore from the headquarters.

7.3.7 Communication Plan

When a company is going through a backshoring process, it is really important that it keeps people aware of the changes that are occurring (all the stakeholders of the company: shareholders, employees, suppliers, partners...). In fact, informing them of the progress of the transition and making them participating to the process, is a really good strategy in order to ensure the success of the transition.

7.3.8 Performance Expectations and Measurements

The process of backshoring includes not only the fact to bring back the production unit from the host country to the home country. It is a process on the long term; when the transition has been done from the host to the home country, then the company has to monitor all its activities in order to check if it is reaching the objectives that make this solution viable.

Most important items that have to be measured are: efficiency, quality, timelines, productivity and turnover (capital and employees). In fact, in order to make the backshoring applicable in the home country where a lot of things are more expensive than in the developing countries, it is essential that the work is doing good and fast. Thus, the productivity has to be higher; the amount of defected products has to decrease as well as the percentage of late deliveries. It is the set of all these factors, which will make the backshoring process working. That is why it is so important that they work in the good direction. It could be also interesting to measure thanks to surveys, the satisfaction of the customer and the employees concerning the new organization of the company and also about its products (did they see any improvement, are they happy that it is produced in the home country and not abroad).

7.4 REASONS OF BACKSHORING

Because we are living in a world that is perpetually moving very fast, a lot of companies begin to realize that the advantages of yesterday are not valuable anymore. In fact the reasons for which most of companies relocated abroad are not relevant anymore or at least they are less interesting than before. That is why some of these reasons are not more used to explain the phenomenon of relocation but the phenomenon of backshoring. Thus, in the next parts, you will find these diverse reasons classified into different parts in order to show what are the main points which push companies to backshore.

7.4.1 Problems in host countries

7.4.1.1 Labor

As I mentioned in the introduction of this part, conditions abroad have changed and in particular concerning the labour costs. Indeed with the evolution of all the Asian area over the years and the globalization, employees in developing countries began to feel that they could be paid more and asked for rises. Thus, salaries increased by 20% each year (Skov Madsen.E and Slepniiov.D, 2011, 2) while in France, it only rose on an average of 2% per year. In this way, manufacturing wages more than doubled in China between 2002 and 2008 (Allon.G, 2011).

Table 5: Average annual wage increases in 4 countries from 2003 to 2008:

Country	Average Annual Wage Increase
Brazil	21%
China	19%
Malaysia	8%
Mexico	5%

Source: Simchi.D ym, 2011, *Made in America: Rethinking the Future of US Manufacturing - Accenture*

As we can see in this table, not only the wages in China have raised in an important way. In Brazil as well, as in Malaysia and Mexico even if it is in less proportions, it represents always more than in France or in other developed countries.

Table 6: Evolution of the salaries in France per sector of activity

Evolution on an annual average

	2007	2008	2009	2010
<i>Mining industry</i>	2,4	3,3	2,7	1,3
<i>Manufacturing industry</i>	2,8	3,1	2,2	1,8
<i>Gas, electricity, steam, air conditioning; water, sanitation, wastes, pollution</i>	2,3	3,8	1,5	1,5
<i>Construction</i>	3,2	3,3	2,5	1,8
<i>Trade</i>	2,6	3,1	2,2	1,6
<i>Transport, storage</i>	2,9	3,0	2,0	1,8
<i>Accommodation, catering</i>	2,9	3,1	2,5	1,9
<i>Information, Communication</i>	2,4	2,7	2,0	2,0
<i>Finance, Insurance</i>	2,4	2,9	2,2	2,0
<i>Real Estate</i>	3,2	2,9	2,2	2,1
<i>Specialized, scientific, technical activities</i>	2,7	2,9	2,2	1,8
<i>Administration and support</i>	2,5	2,9	2,5	1,7
SET	2,7	3,0	2,2	1,8
Harmonized price index	1,6	3,2	0,1	1,7
Deflated set	1,1	-0,2	2,1	0,0

Source: INSEE, 2010

As we can see in this table, whatever the concerned category, the French labor is far from seeing an increase in the wages of 20% per year. If it would already reach 5%, it would be already a great change.

But concerning the Chinese labor, the problem is that it is never enough and even when they got an increase, they always try to have more (Fichter.P, 2011), which explains why it begins to be hard to find a cheap workforce in China today. But because the entire Chinese workforce is behaving like that, companies do not have any other choice than accepting to increase their wages if they want to continue to produce. Otherwise, they would have to face to a high turnover of the employees,

which is never good in order to ensure a certain level of quality, efficiency and productivity. Today, it is not more the companies which are choosing their employees, there are the employees who are choosing in which company they will work and it is usually towards the one which will pay the most (Asbury.N, 2011).

These perpetual increases are shrinking the gap between the salaries occurring in developing countries and in developed countries. In addition, the advantage of the labour in developed countries is, that it is much more efficient and faster than in developing countries. For example the wages in Milwaukee in the United States, are maybe six-times higher than in China but on the other hand, the manufacturing process is 30 times faster than in the Chinese plants (Schmitz.B, 2011). This can maybe be explained by the fact that in the developed countries, the employees are more qualified than in developing countries, that is why they are faster.

7.4.1.2 Quality

This lack of skilled workers has consequences on the production itself. In fact, at the beginning of this thesis, we saw that there has been an evolution concerning the sectors touched by the phenomenon of relocation. First, only sectors, which required unskilled workers, were concerned and then it evolved towards more complex sectors. But the problem is that the workers did not follow any studies or training in order to be able to work in these complex sectors; they just learnt on the spot. Thus, they do not know anything about the requirements of quality that are kind of compulsory for the company if it wants that it fits with its image and that it continues to satisfy its clients.

In this way, companies that are offshoring have to face a lot of quality problems, which create additional work because of the need to remanufacture. Sometimes, the error comes from a misunderstanding between the supplier offshore and the company because of communication problems, especially because of the language. It results in the production of the wrong product or something is missing to complete it (one part of the product for example if sold in different pieces). Otherwise the problem can also just come from the fact that the products are of poor quality (Schmitz.B, 2011) and the company prefers to remanufacture them because it already knows that it will not be able to sell them or if it does it will affect its image.

But remanufacturing when the production unit is situated 9000 kilometres far away from the final market, it means that the company will have to send the goods back to the host country where they have been produced. It also means that the company will have to pay the taxes again, the raw materials again, the transport again (Ferreira.J and Prokopets.L, 2009, 24) and also maybe the travel of a manager from the home country in order to monitor the remanufacturing. All these costs are additional costs that the company would not have to pay if it would produce in its home country, because it would find there a skilled workforce who would be able to produce goods of a better quality. It would imply less product returns, so a less important need of remanufacturing. In fact, quality problems represent the second reason why companies decide to reshore in developed countries (Maetschke.L, 2009, 19).

7.4.1.3 Additional costs for workforce management

Quality problems are frequent and to avoid this kind of situation where the company has to send back the products and to remanufacture; some companies prefer to send supplementary overheads in the production unit in the host country (Maetschke.L, 2009, i). Their role will be to coordinate the workforce, check the level of quality of the products, and ensure that everything is done on time. Of course, the company will have to pay their travels and also all the expenses that they will have on the spot, but if it can avoid having to send back goods because of quality problems, it is a good solution (Koning.L, 2010).

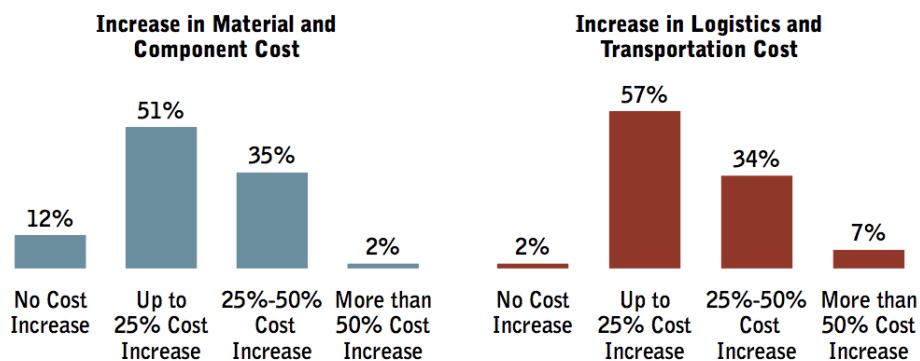
In fact, it is always difficult to manage a team that is situated more than several thousand kilometres far away from the manager himself. That is why it is sometimes better to go directly there in order to decrease the risk of mistakes. In addition, in Asia, it often happens that the intellectual property is not respected (Ferreira.J and Prokopets.L, 2009, 20) which results with the apparition of a lot of counterfeit products on the market (Simchi.D ym, 2011, 3) that are often cheaper than the original ones. Sending managers from the home country is also a solution to fight against these practices but the additional costs that their sending abroad implies, represent the third reason which explains why companies backsource (Maetschke.L, 2009, 19).

7.4.1.4 Unfavorable environment

Developing countries are not as favourable places to do business as we could think at the beginning. Of course, the government often helps the companies in their process of relocation. But on the other side, these countries are confronted to political instability and an insufficient enforcement of the law, which could be a problem if the company had to appeal to the justice (problem with employees, theft of intellectual properties). Another problem concerns the infrastructures present in the country, which are underdeveloped and insufficient in order to ensure a qualitative service. Some companies did not take into consideration when they took the decision to relocate; that they would maybe have to build a road in order to be able to have access to their plant or they will have to do other investments in order to ensure the production on the spot (Maetschke.L, 2009, i).

Other factor that has to be taken into consideration today is that foreign currencies are gaining value comparing to the dollar. The Chinese Yuan for example, has gained 18% in value between 2005 and 2008 compared to the US Dollar. But it is not the only thing that has risen; the prices of the material and components as well, like the one of the commodities. For example, between 2005 and 2008, the global commodity price index has effectively raised by 27 % (Ferreira.J and Prokopets.L, 2009, 22). We can see that this increase is also reported by a majority of the manufacturers who for some of them, report an increase even higher.

Figure 5: Manufacturers reporting an Increase in Cost (%)

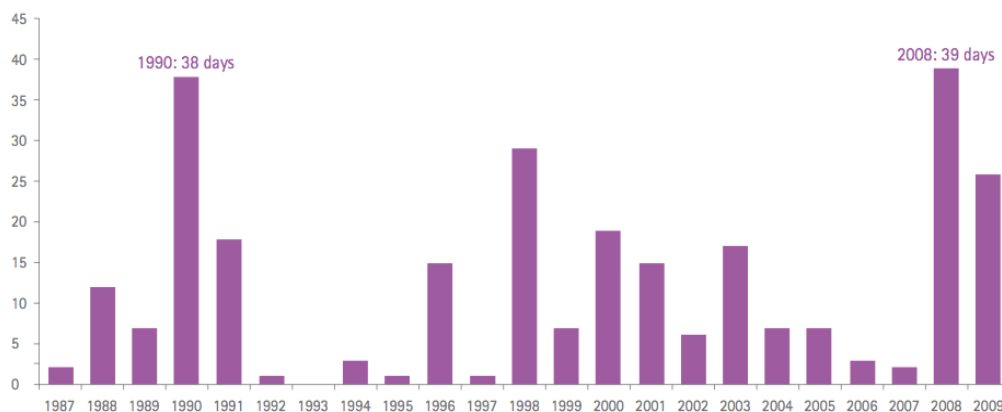


Source: Ferreira.J and Prokopets.L, 2009, *Does offshoring still make sense?*, Supply Chain Management Review, page 22

7.4.2 Transportation and Long supply chain

As we can see with the graph from the previous part, there are not only the commodity price that has risen but also the one of the transportation. In fact, between 2005 and 2008, the ocean freight costs have increased by 135 % (Ferreira.J and Prokopets.L, 2009, 22). This increase can be explained by the oil prices that did not stop to increase especially since the financial crisis of 2008, which will probably represent a real problem in the future because less and less oil will be available and it is used in all sectors. The next figure is for example showing the oil price volatility from 1987 to 2009.

Figure 6: Oil price volatility, 1987 to 2009: Number of days during which oil prices shifted more than 5%.



Source: Simchi.D ym, 2011, Made in America: Rethinking the Future of US Manufacturing – Accenture, page 4

The figure 9 shows the number of days during which oil price has changed by 5 % or more. We can see that generally, it is between 5 to 20 times, which means between 5 to 20 days per year. But in 2008 when the financial crisis occurred, this number soared to reach 39 days. It means that the year of 2008 has been really volatile, even more than in 1990, which was a recession year. In this way, the price of oil doubled between January 2009 and January 2011 (Simchi.D ym, 2011, 3).

In addition, producing in Asia implies that the company has to use the boat for the transportation if it does not want to pay an excessive price (which would be the case with the transportation by air).

This kind of transportation implies the use of containers, which includes the fact that the company has to transport important quantities in order to use them in the most efficient way. But transporting important quantities of goods means also that the company has to adapt its warehouses in order to be able to store all of them at the same place. Thus, companies which are relocating, save maybe money by using the boat, but then they have to invest it in order to create extra warehouses (Ferreira.J and Prokopets.L, 2009, 22; 24). Travelling by boat takes also a lot of time, especially if we make bends to avoid piracy (near Somalia and Arabia Saudi), which increases the risk of delays (Schmitz.B, 2011).

By choosing to relocate the production in Asia, the companies extended their supply chain. It has for consequences to reduce their visibility on the market and thus their flexibility (Ferreira.J and Prokopets.L, 2009, 20). Indeed by being far away from the market, companies are not anymore able to answer to the market needs on the short term. By assuming that it already takes two months-long to export the raw materials and to import the final products because of boat transportation, it is obvious that a company which relocates in Asia, cannot be the first on the market to answer to the demand: local companies will be faster.

Today, we are living in a world that is changing at every second; that is why, relocation cannot more be relevant and that is also why companies are coming back. Being close to the market is now more important than trying to produce at the cheapest price, which is now difficult to do with all the changes that have occurred in Asia (increase of wages, oil costs, transportation costs...). The lack of flexibility is actually the first reason why companies decide to backshore (Maetschke.L, 2009, 19). In fact, the clients will not wait two months in order to have their products. If they can get it faster at the competitor, even if they have to pay more, they will buy at the competitor. The long supply chain has slowed down the speed of getting the products on the market (Schmitz.B, 2011) and it is today a real problem for the companies if they want to continue to be competitive. Companies effectively lost orders because of too long lead time (Fichter.P, 2011).

7.4.3 **Advantages to be close to the market**

As we saw in the previous part, the main advantage to be close to the market is to be able to answer rapidly to its needs. But it is not the only one. First when a company is situated close to its final market, it increases its ability to sense what will be the future market needs and the future trends. Thus, it can try to figure out some ideas that could meet these needs and when they will become true, the company will be able to answer really quickly (Wu.X and Zhang.F, 2011, 3). In this way, it improves its customer responsiveness, which represents a powerful competitive advantage (Ferreira.J and Prokopets.L, 2009, 27). Meeting the expectations of the customers in a really short time will raise their loyalty towards the company especially when in addition, it offers customization services and the possibility to do flexible orders.

By locating close to the market, it enables the company to adapt its products to all the requirements of its clients and all of this in a very short term. Thus, by having a shorter supply chain, it allows the company to have more visibility on the market, to correspond better with the clients' expectations and it limits the risks of delivery delays (Ferreira.J and Prokopets.L, 2009, 23).

7.4.4 **Advantages of home country**

Comparing to developing countries where the infrastructures are underdeveloped; in developed countries they are well maintain and form an extensive network which ensures a fluid flow of goods and human beings through the countries.

In addition, by producing in the home country, the company will have a skilled available workforce, which will allow a smooth running production and a minimum amount of stocks. A better control of the quality of the goods will be ensured as well as the protection of the intellectual properties rights. Moreover, the company would have any cultural problem of communication and the managers will be able to be in direct contact with their employees all the time, which enables the correction of any problem as soon as it appears. Besides, in addition of being skilled, the employees in developed countries are versatile, productive and have a unique know-how (Taddei.D, Coriat.B, 1992, 6), which explains that the manufacturing process is faster in France than in China and that the productivity, the efficiency and the quality of the goods are higher.

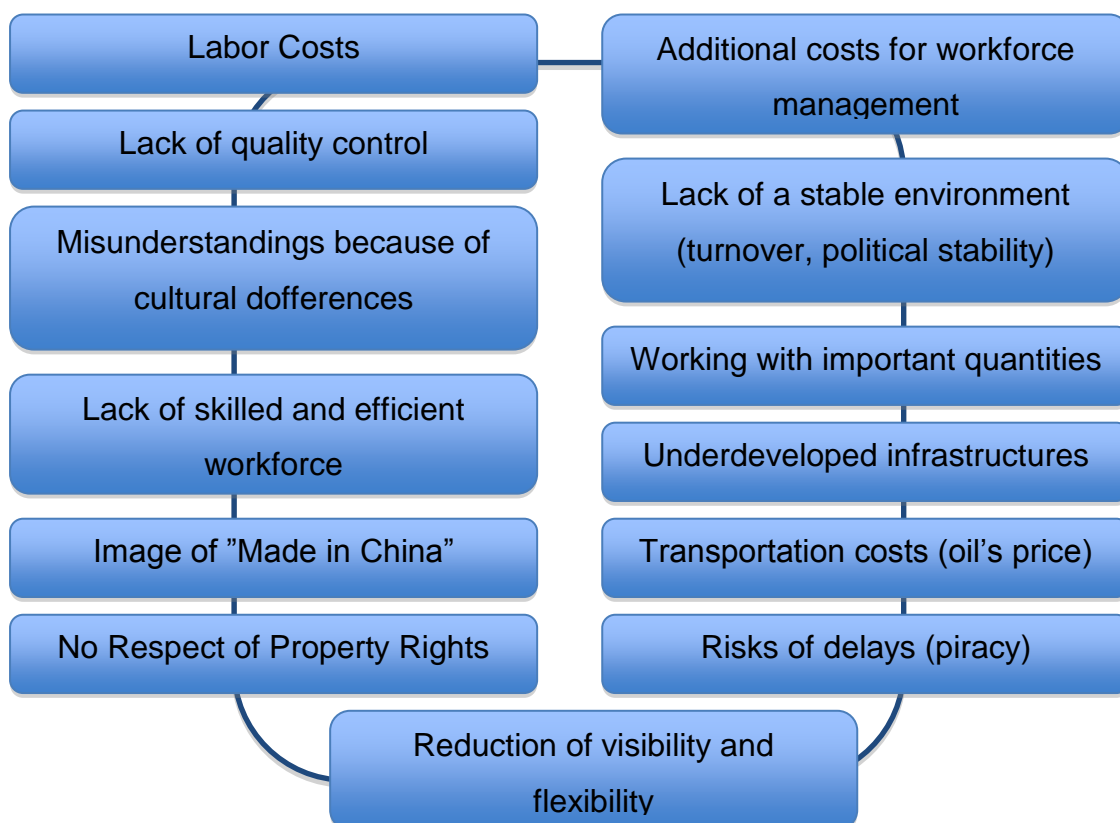
Likewise by producing in the home country, it allows to decrease in a significant way the transportation costs and even if the company has another market in a neighbour country which is situated in the European Union, the transport of goods does not represent any problem thanks to the Schengen space which allow the free travel of goods and human beings, so no need to pay any taxes.

Producing in a developed country, it also means working in a stable environment, where the wages inflation for example is stable and the turnover of employees as well (which means that there is no need all the time to train new employees).

From another point of view, it also enables the company to differentiate itself from its competitors and it can use this particular characteristic to enhance its sells by highlighting the fact that it is “Made in France” for example or “Made in Germany” which has more significance about the level of quality than “Made in China”. In fact, customers are beginning to pay more attention to the quality and the origin of the products that they are buying. Seeing “Made in France” instead of “Made in China” will always helps the company to promote a positive image of itself among the population.

The following figure is a good summary of all the reasons, which could encourage companies to backshore their production unit in their home country.

Figure 7: Reasons encouraging companies to backshore:



8 THE COME BACKS WHICH HAVE ACTUALLY ALREADY OCCURRED IN FRANCE

Now that we understand better what is the phenomenon of backshoring and what are the main reasons, which are pushing companies to come back home; we will see in this part, different examples of companies which already went through this process

8.1 ROSSIGNOL

8.1.1 Presentation of the company

Rossignol is a world leader company that has been created in 1907 by Abel Rossignol who invented at this occasion its first wooden skis. Today, the company is offering different kinds of products to its customers that are mainly: skis, fixations, ski boots and all the complementary equipment to enjoy the snow in all security (helmets, masks, sticks, protections...). It also sells articles for the practice of Snowboard (boards, fixations, Boots, clothes...) and for cross-country skiing as well as a variety of sport clothes.

If Rossignol is known worldwide today, it is in part thanks to the numerous sponsorships that it created with famous sportsmen who won well known sport competitions as the Olympic games with Henri Oreiller in 1948 (the first French Olympic champion) or with Emile Allais who became world champion in 1937 (Rossignol's website)

The company has been sold and bought several times during its century of existence. First time in 1956 by Laurent Boix-Vives who gave it an international dimension. Then it has been sold to Quiksilver in 2005, which finally sold the company to Chartreuse & Mont-Blanc in 2008. 2008, is also the year during which Bruno Cercley, a former CEO of the company (from 2002 to 2005), came back and became the new and current CEO of Rossignol (Liberation, 2010a, Liberation, 2010b).

8.1.2 Situation before backshoring

In 2005, when the company Quiksilver bought Rossignol, the ski market knew deep changes concerning the habits of its customers. Indeed, they began to rent more than buying which had big consequences on the ski market because the volume of sales knew an important decrease. Indeed, it decreased from 7 to 4 million of ski pairs sold per year (Brandarex, 2011, Europe 1, 2011a).

In front of this situation, Rossignol began to lose a lot of money and had to reorganize its structure in order to adapt itself to the new parameters of the market. This reorganization went through different social plans, the dismissal of a part of the employees to finish with the relocation of the production of 60 000 pairs of junior skis in Taiwan in 2007. This decision has been taken in order to continue to be competitive on the market by enjoying the low cost workforce available on the spot (Europe 1, 2011b).

But after three years at the head of the company, Quiksilver did not succeed to improve the situation of the company and decide to give up and to sell to the company Chartreuse & Mont-Blanc (Liberation, 2006b).

8.1.3 Backshoring

In 2008 when the financial crisis arrived, Rossignol knows the worst period of its history. It had a loss of 68 million of euros and a debt of more than 250 million of euros (Valeurs actuelles, 2011). It is actually at this moment that Bruno Cercley, the new CEO of the company had the idea to bring back the production from Taiwan in order to produce in Sallanches at the bottom of the Mont-Blanc (Marianne, 2010).

This backshoring has also been accompanied by a complete restructuring of the company again and the offer has been reduced from 400 to 200 references in order to focus more on the core competences of the company (Valeurs actuelles, 2011). This restructuring also applied the dismissal of 30% of the employees in order to ensure its success, which was then partly counterbalanced by the re-employment of 20 persons in a production unit, which counts 198 employees. This backshoring in Sallanches was not the first one that occurred in the history of Rossignol. Indeed, a

previous one took place in 2010 with the backshoring of a production unit from Poland to Nevers (situated in the middle of France) (20minutes.fr, 2010; Le Figaro, 2011b).

Finally, after few years, this situation seems to work. The company begins to make profits (turnover of 206 million of euros in 2011), to employ again and to increase its production. Only on a period of two years the production increased from 70 000 to 300 000 pairs of skis which gives a good insight of its speed of growth. It has currently the willingness to backshore another 40 000 pairs of skis before the end of 2012 (BFM Business, 2011; 24 Heures, 2011).

8.1.4 Reasons of backshoring

The reason of the backshoring of the company is simple: the raw materials were coming from Europe, the essential part of the sales were done in Europe or in America, so it did not make any sense to produce in Asia. Indeed, first it implies to export all the raw materials, to store them somewhere and to import all the production back in France because of any sell done on the spot. Moreover these additional costs could not be totally absorbed by the low cost of the workforce because it actually represents only 20% of the costs of pair of ski (the 80 other percentages are coming from the price of the raw materials) (Marianne, 2010; Europe 1, 2011a).

In addition, thanks to this backshoring, the company won a lot of flexibility and reactivity, which made it enables to reduce the delivery delays from six months to three months. By producing again in France, the company moved closer to its suppliers and to its customers, which enables it to better understand what are their needs. In addition, by doing the production by itself, the company has now a total control on it and can better see which phases of the process can be improved in order to increase the productivity of the all set (Le Figaro, 2011b; Le Parisien, 2011).

8.1.5 Current situation

Of course the market of ski changed a lot this last decade and the company cannot expect to be yet, at the same level of sales than in 1998-1999 when it produced 600 000 pairs of skis and employed 600 people (Europe 1, 2011b).

Rossignol has now 4 production sites in Europe: one in Sallanches (France), in Artès (Spain) for the skis, in Nevers (France) and in Montebelluna (Italy) for the fixations

The company continues to work on its development and planned to invest 10 million of euros in order to modernize and improve its production sites of Sallanches and Artès. It also has in its plans to increase the part of its exports especially towards countries where the market of skis is growing as in Russia, which will currently welcome the Olympic games in 2014 (Valeurs actuelles, 2011). This group, which had a loss of 94 million of euros in 2008, was able to generate a net profit of 3 million of euros in 2010 which promises a good evolution for the following years (Le Parisien, 2011).

8.2 SMOBY

8.2.1 Presentation of the company

Smoby is owned by the German company SIMBA DICKIE GROUP, which gathers 15 brands in total and all are related to the world of the toys. Simba Dickie Group acquired Smoby in 2008 and at this occasion decided to bring the company back home and to establish the site of the brand in Arinthod (Jura) not far away of the place where it has been created in 1924 (in Lavans-lès-Saint-Claude, 30km far away). Arinthod is a small village of 1300 inhabitants, which makes of Smoby one of the biggest employers of the region (Simba Dickie Group's Website).

Today, thanks to its various choice of products, Smoby is the leader on the toys' market in France and the number two in Europe after the Danish company Lego (Usine Nouvelle, 2008). It owns several brands as Smoby itself but also Majorette, Berchet and the licence concerning Spiderman's and Winnie's products (Les Echos, 2007). It offers products for every age and made to play inside or outside.

8.2.2 Situation before backshoring

Before Simba Dickie Group take the control of Smoby and decides to bring back its headquarters in France, the company had a tumultuous story.

First, it has been created in 1924 in France, in Lavans-Lès-Saint-Claude. The company grown up and decided to successively buy its competitors as Majorette in

2003. But the acquisition of the brand Berchet in 2005, which always has been the main competitor of Smoby, was an acquisition of excess. Indeed, at the end of the year 2006, the company has to face an important debt of almost 300 million euros and has been put in backup procedure by the Commercial Court of Lons-le-Saulnier. The American company MGA Entertainment acquired Smoby for the symbolic sum of 1€ in April 2007 but did not succeed to get out the company of its situation and gave up in February of the next year. The commercial Court of Lons-Le-Saulnier had the choice between 3 candidates for the resumption of the brand: the German Simba Dickie Group, the French investment found MIE and the holding Abcia associated to caravelle (a company specialized in the resumption of companies in difficulties) (Usine Nouvelle, 2008; Les Echos, 2007).

In March 2008, the commercial Court finally chose the German Simba Dickie Group, which invested 13 million of euros in the company. It represents a lot of money especially when we know that the annual turnover of Smoby was 120 million euros. This money has been used to help Smoby to begin on new basis but also to build the new plant in Arinthod, which has been inaugurated in May 2011 (Simba Dickie Group's website).

8.2.3 Backshoring

Against all expectations, the new owner of Smoby decided to backshore in 2009, 20% of the 40% of the production that was previously produced in China. This previous relocated production is now realized in Arinthod, Lavans-lès-Saint-Claude and Moirans-en-Montagne. But this come back was not without consequences on the company (L'Express, 2012b).

Indeed, in order to reduce the costs, Simba decided to completely restructure the company Smoby, which implied to dismiss an important part of the employees. Actually, half of the employees on 900 have been fired. It has of course been a shock, but then, it was for the welfare of the company and to ensure its success. Actually, some employees have been fired and then re-employed later when the company began to feel better (Le Pays, 2012).

8.2.4 Reasons of backshoring

The main reason that explains why the company decided to relocate does not concern the quality of the products or the fact that the company wants to play on the trend of the “made in France”. If the company decided to relocate, it is only because of economic reasons. The company grown to fast and was then not able to control the situation (Le Parisien, 2008b).

Indeed, it realized that producing in France was not more expensive than producing in China if it succeeded to automatize the production of some lines. In this way, it needed a smaller number of employees and it also decreases its production costs (Hebdo, 2012).

On the other hand, the company also realized that it would never be able to backshore all its products. Some need too much workforce, which makes it impossible to backshore because of the price of the workforce in France; or it would be the production of collection's toys (L'Express, 2012b).

Also, if the company decided to backshore, it is because of the long delays and the cost of the transport, which almost counterbalanced the margin that the company was doing on the costs of production (Direct 8, 2010).

8.2.5 Current situation

After having succeeded to restructure the company, which had not been well managed by the previous owners, Smoby is back in the market and in the competition. Indeed, it has been discovered that the former CEO was responsible for embezzlements and had currently to explain himself about these accusations in front of the justice (Le Parisien, 2009c).

Now that the health of the company is much better than what it was when the German Group acquired it, it will double its space of activity and will modernize its machines in order to ensure a production always more efficient (L'Express, 2012b). The new owner can be proud of the evolution of the brand which was really close to close four years ago and which registers a growth of 10% for 2011. Now Smoby wants

to increase the part of its exports and think to enter in promising markets as Russia (France Info, 2012).

8.3 MAJENCIA

8.3.1 Presentation of the company

Majencia is a French company leader on the market of office furniture and tertiary space planning. It works for example for important French companies as EDF (electricity), SNCF (train traffic) and BNP Paribas (bank). In total, it counts 758 employees, 3 industrial sites, thirteen commercial agencies and eleven regional logistic platforms (Majencia's website; J'achète français.fr).

8.3.2 Situation before backshoring

In 2000 in order to be even more competitive in a world where the prices have always to be lower and the profits have always to become higher, the company Majencia, previously named Samas decided to relocate its production in China. In this way, it was expected to get lower prices concerning the costs of production which would enable it to offer more competitive final prices to its clients compared to its competitors (L'Union, 2011, Les Echos, 2010a).

8.3.3 Backshoring

But even by having relocated the production in China since four years, the company continues to lose a lot of money. In 2004, the loss represented 20 million of euros for a turnover of 92 millions. In order to face this situation, a new board took place at the head of the company by MBO (Management Buy-out). It means that the company has been bought by some of its managers and employees. In this case, it has been done by 7 executives who also decided to change the name of the company to give it a fresh start. Thus Samas became Majencia (Les Echos, 2011a).

After two years at the head of the company, the new board decided in 2006 to bring back home the production of 30 000 boxes which were previously produced in China since 2000. This backshoring represents the totality of the production that was

made on the Chinese territory. In France, it has been incorporated back in the three French production sites of Majencia which are situated in Noyon, Guise et Bressuire (L'Express, 2012c; Les Echos, 2011b).

Today, six years after the backshoring of the production of the company, the board does not regret its decision, because it succeeded to change completely the situation of the company that is now making profits. It also created a small amount of jobs (40 jobs), which of course does not compensate the ones which have been removed when the company relocated in China, but it is at least a good provision for the future (Le Parisien, 2012).

8.3.4 Reasons of backshoring

When the group of executives of the company arrived at the head of the company, they noticed that the production site in Noyon was in overcapacity and that the employees were in technical unemployment at a rate of 20%. Thus, instead of closing this plant and increasing the production in Asia, they preferred to bring back production's activities in France in order to use the plant at a full rate (Le Figaro, 2011c).

Then, it is true that by producing in China, the boxes were 20% cheaper at the exit of the factory. But then, Majencia had to add 10% for the transport costs which makes the Chinese production advantageous of only 10% which could be also reached by a factory situated in France if it automatizes a part of its lines (Les Echos, 2010a)

In addition, when a company is producing in Asia, it cannot have a total control on the production. It also cannot be as flexible as in the home country. Thus if a client needs products in emergency or if a trend appears on the market, the company is not able to answer to the demand enough quickly. Indeed, it already needs six to eight weeks to send the raw materials in Asia (travel by boat), then the production has to take place and finally everything has to be brought back home, which takes also six to eight weeks (Courrier Picard, 2010).

Another reason why is it more interesting to produce in France, is the fact that the company can customize the order of the client. Indeed, if he wants to have its office furnitures in red and yellow, it will be possible in France, while in China, you have most likely the choice between grey and grey.

In addition, the fact that Majencia can indicate that it has been produced in France, add a lot of value to the product. In fact, people are reassured about the quality for example when it is indicated that it has been produced in France than in China (Courrier Picard, 2010; Les Echos, 2010b). It is actually by comparing the quality of two products (one produced in France and one coming from China) that the company took the decision to relocate. And the board was right, because the boxes are better sold since they are produced in France (60 000 boxes per year instead of 25 000) (Les Echos, 2011a).

A last reason that explains the come back of the company is the fact that it wants to involve itself further in the sustainable development. Thus produce at 9 000 km of the final market and reject a lot of CO2 does not really follow this logic. Majencia actually thinks that this parameter will occupy an even more important place in the criterion of the clients if they have to choose between different suppliers. That is why, it has the willingness to involve itself deeper in this approach and producing at home constitutes the firsts step of this process (Le Figaro, 2011c).

8.3.5 Current situation

Today the company does not have financial difficulties anymore. It registered a turnover of 114 million euros in 2011, which represents a growth of 10% as in 2010. Majencia wants now to improve its presence abroad, not to produce but to sell. That is why it opened three subsidiaries in 2010 with one in London, one in Bruxelles and one in Milan (L'Express, 2012c).

In 2007, it also created a program with three other French companies, in order to help other firms which might want to relocate or which want to come back to measure the pros and cons of their decision according to their situation (Rue89, 2009).

Moreover, the company wants also to deepen its engagement in sustainable development. That is why, the fact that it received the certification ISO 26 000 represents a good step in this direction. Indeed, it rewards companies, which invest themselves a lot in order to improve their Corporate Social Responsibility (Indicerh, 2011).

Thus, Majencia counts today 790 employees with an increase of 30 thanks to the backshore of its activities. Its turnover registered a progression of 174% compared to 2009 and it is now owned by 88% by Majencia and 12% by the bank BNP Paribas Development (Le Figaro, 2011c; Majencia's website).

9 CONCLUSIONS

9.1 DISCUSSION ON COMPANY'S CASES

Thanks the different cases presented in this thesis, we saw that companies decided to relocate for different reasons. One of the most important one is related to the financial crisis of 2008, which had important consequences on the health of numerous sectors. For others, it is because of a change in the habits of their customers or because of a financial mismanagement of the company. In most of the cases (except for Arena), companies had important financial problems (important debt, not longer profitable) and relocating seemed for them as the best solution to resolve these financial problems.

But for three of them, it seems that it was not a good solution on the long term because they decided to backshore their production at home and actually began to do more profits by producing in France than by producing in low cost countries. Thus today, producing in Asia, does finally not seem to be as profitable as it seemed to be in the past. Actually, producing near your final market seems now to be the best option that companies have if they want to keep their costs the lowest possible. And even if companies do really not want to come back in their home country for some reasons, they always have the possibility to relocate in neighboring countries that are offering interesting conditions of production such as in Eastern Europe for example. In this way, by producing closer from the final market, it would enable the company to reduce its costs of transport and will always have a cheaper available workforce than in France. Of course it would not directly profit to the French workforce, because it would not really be a backshoring, but at least they could get an indirect profit of it through the European Union.

9.2 GENERAL CONCLUSION

Thanks to this thesis, we have seen that it is not simple to define what is relocation and that it is easy to confuse it with other close terms that are not always referring to this phenomenon. But it is important to understand what it is in order to better comprehend the consequences it implies. We also saw through this thesis that the globalization had a huge influence on the development of this phenomenon because it generated the birth of an international competition in front of which, companies had to rapidly react in order to stay competitive on the market.

The two different kinds of host countries (developing and developed countries) have also been approached and it has also been explained in which situation developing countries or developed countries are preferably chosen. As well, the three main sectors, which are the most concerned by this phenomenon, are the clothing industry, the components of electrical and electronical equipments and the household equipments. Finally, at the end of the part dedicated to the relocation phenomenon, three examples of companies have also been used in order to illustrate the theory.

However, relocating does not work for everybody. Indeed, since the beginning of the phenomenon, the conditions of relocation have changed a lot. Some advantages that were available at the birth of the process are now not existing anymore and additional disadvantages appeared. For example, the wages in Asia are now not as low as before and on the other hand the transportation costs increased a lot because of the rise of the oil's price.

Thus, for some companies this solution was not anymore profitable, that is why they decided to take their return ticket and to come back in their home country in order to realize their production. In this case, we talk about backshoring. This new process includes several steps which have to carefully be respected in order to ensure its success. Thus, for example, the company has to decide if it wants to carry the production by itself in the home country or if it wants to give this responsibility to a local supplier. In this case, it implies to find one with who the company will be able to build a long term relationship.

Today however, this phenomenon is not well developed, which means that it can be only a trend for few years or actually the beginning of a new phenomenon that will become bigger and bigger in the future. In fact, in this thesis, we approached different cases of companies that already went through this process and it seems that they do not have the intention to try to relocate again.

What is certain is that we are living in a world that is changing all the time. 50 years ago, we did not know what was the Internet, the phenomenon of relocation just began and the Asian countries such as China or India were still developing countries. Today, developed countries such as France, Italy or the United States have an economy that is stagnating and have a lot of debts while China and India are both in the race to be the next superpower.

So if in 50 years the situation changed so much, what will it be in 50 years or even in 20? How will the developed countries of today react in order to continue to be in the competition and how will the developing countries of today manage their new power on the international market?

Concerning the developed countries, they could enter in a process of specialization and establish partnerships with each other. It means that for example, each country would be specialized in the production of certain goods that they could then exchange against other goods that would be produced by other countries. In this way the competition would be less important and the production would be more efficient. It could be the occasion to form clusters with various actors such as universities, institutions and companies. Indeed, working with people from different backgrounds could be really interesting for companies especially concerning their innovative capacities. In fact, the more there are people who are working on a project, the more the possibilities of different ideas can appear.

Also, the preoccupation of the global warming could also play an important role in the future. Indeed, producing far away from the final market does not only increase the transportation costs, but it also increase the emissions of CO₂,

which is really not a good news for the environment. Thus, we can think that some measures will be taken in the future by the governments or by the companies themselves. As a goal, they could try to reduce these emissions and to be more environmentally friendly (Example of the company Majencia). For sure, choosing to come back home to realize the production of the company could represent a part of the solution to this problem. In any case, it will affect in one way or another, the methods of conducting a business.

In some countries, this problem has already been tried to be approached, that is why alternative solutions have already began to be imagined as the invention of “green” cars or alternative energies. But for the ones which did not already think about it, it will be harder for them to adapt themselves to this new parameter. In any case, the role of the governments will occupy an important place and will influence a lot the final decisions.

What is sure is that in 50 years, the situation will be completely different from the one of today. Now we are talking about relocation and backshoring, but in few years, we do not know how will the situation evolve and if these phenomena will still be current or not.

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Appendix 1: Questionnaire for Customers

Hello,

As part of my exchange year in the university of Turku in Finland which is in partnership with my school the "ESC Troyes" in France, I have to write a bachelor thesis. The following questionnaire represents a part of this thesis. That is why it is really important that you spend few minutes of your time to answer it. The theme of the questionnaire is about relocation and backshoring of companies.

In order to clarify what is relocation and backshoring, we will consider that:

Relocation: the transfer of industrial activity from a country X to a country Y (generally from Europe to Asia)

Backshoring: the opposite phenomenon of relocation: the return of previously relocated activities in the origin country

Thank you in advance for your participation!

*** 1. Are you:**

- Men Woman

*** 2. How old are you?**

- Less than 18 Between 46 to 65
 Between 19 to 25 More than 65
 Between 26 to 45

*** 3. What is your job?**

- Farmer Merchant, artisan, entrepreneur

- Executive
- Intermediate profession
- Employee
- Worker
- Teacher
- Student
- Inactive
- Unemployed
- Other

*** 4. What do you think about Globalization?**

*** 5. Are you:**

- For
- Against

Why?

*** 6. What are its advantages/disadvantages? Rank these answers in order of importance**

	1	2	3	4	5	6	7
• Eliminates jobs in developed countries (Europe)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
• Help developing countries to evolve	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
• Exploit workers in developing countries	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
• Generates possibilities of jobs all over the world	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
• Responsible of global warming (because of transport)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
• International expansion of the companies (new markets)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
• Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

*** 7. Do you think Relocation is caused by Globalization?**

Yes

No

Why?

*** 8. Concerning relocation, Are you:**

For

Against

Why?

*** 9. According to you, in which countries, companies are relocating the most?**

China

India

Thailand

Viet Nam

Brazil

Poland

Germany

Italy

Spain

Other

*** 10. Why in your opinion companies are relocating to China? (1: weak impact, 5: great impact)**

- | | 1 | 2 | 3 | 4 | 5 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| • The cost of the workforce is cheaper | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Asia is a promising market | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Asia is a favourable environment to set up a business | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Industry in developed countries is no longer an activity up to date | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • The administration in developed countries is too complex | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • To be able to face the international competition | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Other | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

*** 11. Do you think they take this decision too quickly? (do not have enough information on the relocation country)**

Yes

No

Why?

12. Can you give me examples of companies, which moved in Asia?

*** 13. Do you think that there is a hope that they come back in Europe?**

Yes

No

Why?

*** 14. For which reasons would they come back? (1: weak impact, 5: great impact)**

- | | 1 | 2 | 3 | 4 | 5 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| • Problems concerning the workforce/ the quality of the products | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • No respect of the intellectual property rights (spy) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Instable environment and underdeveloped infrastructures | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Increase of the transport costs | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Situated too far away from the final market delivery time too long (high risk of delays) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Problems linked to cultural differences | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Increase of the value of the foreign currencies | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • To improve the image of the company, to differentiate itself from its competitors | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

Other

*** 15. Which would be the other solutions if they had to leave Asia and especially China?**

Relocate in another Asian Country

Relocation in Eastern Europe

- Relocation in Africa
- Relocation in South America
- Other (precise)

*** 16. Do you think that the relocation phenomenon will continue to extend?**

- Yes
- No

Why?

*** 17. Which would be the consequences of a return of companies in their origin country in the final market? (1: weak impact, 5: great)**

- | | 1 | 2 | 3 | 4 | 5 | 6 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| • Increase of prices | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Improvement of quality | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Improvement of service: direct relation with the company possible | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Faster Deliveries | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • More possibilities of customization | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| • Other | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

Other

*** 18. Would you be ready to buy a product more expensive if it has been produced in your origin country?**

Yes

No

Why?

*** 19. How do you imagine the situation in 50 years?**

