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 - [Dispute resolution](#)
- [News](#)
- [Events](#)

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You are here

- [Home](#)
- [Observatories](#)
- [EMCC](#)
- [ERM](#)
- [Restructuring in SMEs](#)
- [Osteoplant, Poland](#)

Osteoplant, Poland

- Type of restructuring:
Business expansion
- Employees before restructuring:
10-49
- Employees after restructuring:
10-49
- Nace/Sector:
Manufacturing
- Country:
Poland
- Date:
24/11/2011
- Keywords:
Recession/Crisis

Abstract

Dental implant factory develops, manufactures and sells the Osteoplant ® implant system that was invented and developed in the early 1990s by a team of dentists at the Medical University in Poznan. The financial crisis caused a drop in turnover and financial performance and significant problems with liquidity. Despite the difficult conditions imposed by restructuring which brought the company to the brink of bankruptcy, Osteoplant was able to meet all the investment obligations of its EU grant agreement and, in cooperation with external institutions, is continuing to innovate and develop products.

Organisational profile

The dental implant factory Osteoplant, established in 1989, is owned by the Medical University Foundation in Poznan, Poland. The foundation, a fully independent legal entity, employs, at the time of writing (end of 2011) 33 people and conducts business in several areas, including:

- manufacturing and distribution of dental implants;
- organisation of conferences and scientific meetings;
- running a retail pharmacy outlet.

Osteoplant was founded in 1996 and has become the main area of the foundation's activity, both in terms of employment (about 15 people) and turnover. The highly specialised business domain and features of the restructuring process at Osteoplant are the reasons why the study has been limited to its activities. Therefore, the actions and decisions of the owner, the foundation, are presented only if directly related to the restructuring process at Osteoplant.

The main area of activity of the implant factory is to develop, manufacture and sell the Osteoplant ® implant system that was invented and

developed in the early 1990s by a team of dentists at the Medical University in Poznań. Since its certification by the Institute of Medicines in 1998, until 2008, Osteoplat rapidly and consistently increased its sales on the Polish market. This period saw a very dynamic development of the market and strong competition from international giants, but the Osteoplat® system maintained its share of approximately 15%–20% of the Polish market. It should be noted that, in the last few years, there has also been strong direct competition from companies in Israel, Germany and Korea in the price range in which the implant factory operates (approximately 1/3 of the price of products of the global market leaders). In 2009–2011 after trying unsuccessfully, in collaboration with an external company, to enter the Norwegian market, it abandoned any further ideas of trying again to enter any foreign markets. The company's manufacturing process for medical devices in the company has been conducted in accordance with quality management systems ISO 13485 and ISO 9001, and all products comply with the European Medical Directive 93/42/EEC and are CE marked.

The current Director of Osteoplat joined the company in 1998, initially as a sales/medical representative. Since 2000, he has been given overall responsibility for running the entire business. The director, who is a dentist and who has a dentistry practice specialising in implants, gained his business experience before joining Osteoplat, while working in the marketing department of an international pharmaceutical company.

Osteoplat currently employs three people in the sales office and one mobile sales representative. Its manufacturing department employs a production manager who acts also as the designer-constructor; a second engineer, responsible for quality management and five production workers, operators of digital machinery and two other people involved in the assembly and packaging of products, all with secondary or vocational education. Accounting and personnel matters are conducted jointly with the foundation, by staff members directly employed there.

The implant factory is strongly linked with the region, as its core customers live in the Poznań and Wielkopolska region. The company is also still closely associated with the local academic community, including not only the Medical University, but also the Poznań University of Technology, the Institute of Metal Forming in Poznan and the local vocational school for digital machine operators.

Osteoplat has always been very active in the Polish market for conferences, training and professional development for dentists. However, the company has no written HR strategy or statement of corporate social responsibility. The company is not unionised and does not have a works council.

Background to restructuring event

During its first 10 years, up to 2008, Osteoplat's sales volume rose sharply, from about 100 implant sets, to more than 6,000 sets per year. If we look at sales volumes for the German market (about 900,000 implant sets per year) it seems that the Polish market, with total annual sales of around 30,000 units, has still a huge potential for growth. According to Osteoplat's management, interest in implantology from Polish dentists is very great, although it is estimated only about 5% of dentists in Poland carry out implant surgery. It can be therefore expected that, as the Polish people prosper, the demand for implants, and consequently the factory's products, should continue to grow dynamically.

The company's best year for sales was 2008. In 2009 Osteoplat applied for an EU grant for innovation, under the Operational Programme Innovative Economy. It wanted the money for research and development, including the construction of a new factory building. The net value of total investment in development and implementation of new and modified products of the Osteoplat® implant system in 2009–2011 was PLN 6,114,100 (€ 1.4 million as at June, 2012) and a guaranteed share of the European Union grant was PLN 2 643 320 (€ 619,000). The company began to implement its plan in 2009. Unfortunately, shortly after signing the contract, the world financial and economic crisis started.

Table 1: Gross Domestic Product and registered unemployment rate in Poland in 2006–2010

	2006	2007	2008	2009	2010
GDP (previous year = 100, constant prices)	106.2	106.8	105.1	101.6	103.8
Registered unemployment rate	14.8	11.2	9.5	12.1	12.4

Source: [Concise Statistical Yearbook of Poland \(In Polish and English, 7Mb PDF\)](#) and [the website of the Central Statistical Office \(GUS\) \(in Polish\)](#)

The economic slowdown and rising unemployment, meant that many potential patients decided to postpone implant surgery. Sales declined; compared with 2008 there was a 5% drop in 2009, a 19% drop in 2010 and a 17% drop in 2011, at which point sales stabilised.

Restructuring processes

In May 2011, production was moved from rented premises to a new site in Dabrowa near Poznań, fully owned by Osteoplat. In planning its large investment, management had assumed a long-term trend of sales growth. However, the financial crisis caused a drop in turnover and financial performance and significant problems with liquidity. This was aggravated by its rigid investment commitments under the contract for EU funds. The crisis also led to banks demanding more stringent conditions before being willing to offer financing, and this meant Osteoplat's suppliers, especially from abroad, started asking for 100% payment in advance.

As a result, Osteoplat found itself in a difficult financial situation. In 2010, the foundation suspended the payment of bonuses to management and all employees at the implant factory and demanded cuts in production costs, and the budgets for training and marketing. All available funds were

transferred to research and development, in order to comply with the EU grant agreement.

The conditions of the EU grant to build the production site required that, not only had the level of employment to be retained, but also that additional staff should be recruited. This obviously affected the restructuring process at Osteopiant. In effect, the only negative consequence of the restructuring on employment was several months delay in recruiting an employee to replace one of the white-collar workers who had voluntarily left.

As for the formal aspects of the restructuring process, the company did not have a restructuring plan upon which Osteopiant employees were consulted, as decisions were taken unilaterally by the foundation and then announced to the management and employees.

Challenges and constraints of restructuring

The crisis arising from falling sales and serious problems with liquidity, aggravated by the rigid requirements of the EU grant agreement, has been the first in the history of the company. Sales are expected to drop again due to cuts in the budgets for training and marketing. The cuts in direct production costs have also caused additional anxiety and stress among production workers.

However, in spite of its short- and medium-term difficulties, Osteopiant has been meeting all the investment obligations of its EU grant agreement and, in cooperation with external institutions, is continuing to innovate and develop products.

Much of the current difficulty is caused by the very time-consuming and bureaucratic procedure of getting the EU payments. The company has been close to bankruptcy for months because the regional office responsible for the management of EU funds is delaying payments, by asking for the company to correct minor errors with an interval of one month between each request. As a result, in late November 2011, the company is still awaiting payment of the first instalment of funds, even though the relevant documentation was submitted in April 2011. In the meantime, Osteopiant has completed the second stage of its investment project, putting itself on the verge of insolvency.

Restructuring advice and support

The company has not sought and did not use consultants or any other external bodies to support the preparation and implementation of the restructuring programme. The restructuring was carried out relying only on staff and resources at Osteopiant and the foundation.

Important factors for success in the restructuring process have been the loyalty and commitment of staff, built on trust and good relations between them and management.

Outcomes of restructuring

The survival of the company still seems to be seriously at risk. Despite this, the company continues to implement the investment project agreed in the EU grant contract according to the original schedule. In 2012, it plans to purchase a new, modern digital machine as the grant was in fact associated with investment in machinery and equipment to be installed in the new building.

Fortunately, in 2011, after two years of decline, the level of sales has stabilised. However, if the payment of the EU subsidies for already completed stages continue to be delayed, this award-winning, innovative company may face bankruptcy.

The management points out that if it had known what problems would be involved in the use of the EU grant they would not have invested funds in developing their manufacturing capacity, but would instead have made greater use of outsourcing. Osteopiant did this very successfully in 2005–2006, when, unable to keep up with demand, they used companies in the US and Switzerland.

Commentary

Osteopiant was named one of the three most innovative companies in Wielkopolska, in a competition organised by the Marshal's Office. However, the company is on the verge of bankruptcy due to delays in payments by the Regional Financing Institution, part of the same Marshal's Office, and this merits attention and action.

Regional officials, often very young people, keep finding formal errors in the documents and reports sent to them. They generally spend nearly the whole of their allotted month going over the documents before requesting clarification or additional documentation. The company then has seven days to respond. After another month, the office requires further clarification on another minor point and the company, again in seven days, complements and enhances it. This has been going on from April 2011 to the point of writing, in November 2011, and none of the grant has been paid to the company. This has made it almost impossible to plan financial flows, especially in a small and medium-sized enterprise with limited financial resources, and this can be very harmful for the business.

Another conclusion to be drawn here is that there should be more flexibility in the way the EU finances innovative projects, because current rules do not permit the introduction of any deviations from the plan during its implementation. This condition is very difficult to meet, and can even be counterproductive. For example, in tests conducted, Osteoplast discovered that a device it had previously planned to purchase was not after all needed, but found that it could not change the EU agreement and cancel the purchase.

Author

Radosław Owczarzak, Eurofound

Information sources

Interviews

Dr Rafał Zagalak, Director, and Joanna Tokarska, Head of the Sales Office, Osteoplast

Company website

www.osteoplast.pl

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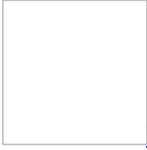
Contact us

Eurofound, Wyattville Road, Loughlinstown, Co. Dublin, D18 KP65, Ireland

Phone: (00) 353 1 2043100

E-Mail: information@eurofound.europa.eu

Press: media@eurofound.europa.eu



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