

2.0 THE PRODUCT / SERVICE

2.1 Contract Packaging Definition

Contract Packaging is a term widely used in the packaging industry where manufacturers outsourced their packaging activities to a third party. These third parties are known as Contract Packers and are common throughout the packaging industry. The medical and pharmaceutical industry however, has to be much more careful in selecting Contract Packers since it has strict regulatory requirements (including the need to validate).

In almost worldwide, the contract packaging market tends to be dominated by poorly equipped low margin companies whose objective is to retain their customers business at almost any cost. This conflicts with most medical customers' objectives:-

First, most medical suppliers only want to use contract packers for initial production volumes, disaster recovery (due to unpredicted order volume or machine breakdown) or simply to smooth their own production needs. They normally have no desire to continue contract packing unless the product line is in decay.

Second, they would rather their contract packing suppliers use up to date equipment, but are unwilling to commit to sufficient long-term volumes to enable conventional contract packers to make such investment.

2.2 Motivation Factors For Doyen To Enter Contract Packaging Business

There are three principal factors that make Doyen's decision to enter into Contract Packing compelling:-

- i. There is a general trend with Doyen's customers to favourably consider the use of contract packers on new projects and products. This decision is driven in large part by the inability to predict product growth and therefore justify a machine purchase. This is followed

ultimately by bringing the product in house when volumes justify the purchase of equipment. There are distinct advantages to Doyen in ensuring that Doyen machines are used to pack the product from the outset.

- ii. Doyen are constantly approached by potential start up companies seeking to purchase machines, but unable to justify acquisition of Doyen technology through lack of volume. Offering contract packing services effectively locks these emerging Companies into Doyen systems, and provides them with a smooth transition when they finally feel able to justify in house manufacture.
- iii. The medical industry is recession proof, but this does not stop Companies suspending machine orders in recession times. Instead, Doyen customers turn to contract packers to meet short-term demand without committing to new machines. Contract packing will balance this trend for Doyen, with contract packing activities increasing when machine orders temporarily decay and vice versa.

Doyen's contract packing facilities will utilise demonstration machines, provide a base of trial machines, and create revenue-generating business whilst broadening Doyen's support of its customers.

2.3 Doyen Malaysia Contract Packaging Plan

Having only glove packaging machines in this region, Doyen is going to look into setting the contract packaging facility here with a full glove packaging line that is flexible to cater for varieties of surgical gloves packaging needs. The machines proposed are the Glove Packaging Machine (GPM) and the flexible four sides rotary seal machine (4SS). This 4SS machine is proposed instead of the more commonly used Doyen sealing machine in the glove industry, the high speed four

sides platen seal machine (HDW) due to the variation of dimensions of different customers. Most recently, the R&D works done on the 4SS shows that the 4SS with some modifications is capable of running at higher speed than HDW.

In addition to the motivation factors mentioned above, the advantages that Doyen foresees in setting up this contract packaging facility are:

- i. To have the machines in this facility to serve as demonstration machines. With Doyen glove packaging machines being priced almost as high as double of their competitors, it is important to be able to demonstrate its machines superiority which otherwise would be difficult to convince prospects without them having a view of the machine effectiveness.
- ii. Having this contract packaging facilities here provides avenue for the service engineers to have continuous on the job learning process, occupy their free time and saves the company of overseas training cost. This also provides opportunity for them to explore the R&D of these machines with more focused concentration (as compare to the US factory).
- iii. With majority of gloves packaging machines located in this region and the lower production cost here compare to US and UK, Doyen's long term plan includes the possibility to move some of their machine production to this region. Setting this contract packaging business here can serve as a step towards that goal, providing an opportunity to test and explore this possibility with a smaller scale factory first.