

## **6.0 CONCLUSION**

### **6.1 Recommendations**

From the market survey done, it is important to note that not all the manufacturers with packaging machines have shown great interested in purchasing the service contract. For the multinational companies with large and established market, they have the ability to charge a premium price for their product. Thus, security of continuous supply (an important element of quality service) plays a much more important role in their decision as compare to the local companies.

Based on the simple economics study done (detail calculations shown in Appendix 4), the capital investment required is approximately RM 1.86 million inclusive of the machine cost estimated at RM 1.6 million. The operating cost based on operation on one shift is closed to RM 800,000 per year.

Comparisons with the competitors are not exactly straightforward. With the investment required for Doyen to set up this facility, it is quite impossible for Doyen to initially compete with the existing contract packagers in terms of price.

The cost of packaging each pack (based on a single shift operation) is approximately 5.35 sen compare to the charges of 5.5 sen to 6.0 sen by the existing contract packagers. With proposed gross margin at 40% and 60% for standard contract packaging and disaster recovery respectively, the service will be priced at 8.92 sen and 13.38 sen respectively. These prices may not be attractive enough for Doyen to obtain the contracts sales.

However, with sufficient contracts in place, the cost can be further reduced to approximately 3.31 sen per pack for a full 3 shifts operations. With the same profit margin, the service can be priced at a more attractive 5.52 sen for standard contract packaging and 8.28 sen for disaster recovery. The standard contract-

packaging price is competitive compare to the existing market players. There is no reference on the disaster recovery as this is a new concept.

The additional costs of material, transportation and sterilisation due to the increased package size as compare to the manual packed gloves are the major obstacles that might dissuade the local gloves manufacturers from going into machine pack.

However, with Doyen unique feature as the first machines maker that ventures into this business, it has the exclusive market segment of its existing machine users. And depending on the producers' marketing strategy, the additional costs by having gloves machine packed may be taken care of by the extra price premium that the gloves producers are able to command with machine packed gloves.

Having this facility is likely to enhance its machine sales chances, which is one of Doyen's main objectives of setting up this facility. However, it is quite difficult to forecast the direct effects of this facility to the machine sales. This requires business sense or intuition of Doyen management and the experience it can gather from its existing contract packaging facility in US.

Doyen initial focus therefore should be on the multinationals companies that are their satisfied customers, offering the disaster recovery services program as well as for their new product start up / testing. The next targets should be their existing local customers that have only one machine packaging line. With these contracts in place, Doyen can then move to get contracts from companies that are interested to pack their gloves by machine but without the significant volume to justify a direct purchase. At the same time, these machines can provide demonstration to the potential machine purchasers.

To cater for their immediate target market, Doyen need to have a clean room environment facility as these multinationals companies are packing their surgical gloves in clean room environment. Without such facility, it is almost impossible for Doyen to convince them to engage Doyen's contract packaging service. Having a clean room environment can be one of Doyen's advantages over their competitors but it will definitely raise Doyen operation cost.

Due to the different nature of services offered, the pricing of the services need to be categories into the following:

- i. Disaster recovery service is to be priced by on the number of weeks that the clients purchased. Besides this charges, extra premium should be charged for the actual time the service is used.
- ii. Similar to the above, the services for the product start up or testing will be charged based on the actual time the service is used.
- iii. For the conventional contract packaging services, the charges will need to be on the number of packs done instead.

With the existing service team located in Kulim, Kedah which nearby to one of Doyen main customers, LRC whom has expressed the interest to pursue with this contract service, the proposed initial location of this facility is to be around the same area. This will provide the necessary synergy with the existing business in terms of machines maintenance and the operating cost. Besides, being located away from the existing contract packagers concentration area (in Klang Valley) will reduce the tendency of them reacting negatively.

Based on the information given by MIDA, it is advisable to set up this new business as a separate entity in order to qualify to some of the government incentives available. The exact incentives can be obtained is to be determined by MIDA upon the submittal of the application form.

From the analysis done on the information gathered in this study, it is feasible for the company to further explore in determining the level of business it can command. This requires a more serious contact and negotiation with the surgical gloves manufacturers by the company.

While conducting the next level of research, Doyen need to continue to open for other options as well as aware of the next competition that is coming up from the material supplier that has intention to go into this business as well. Limited leasing option can be offered to the some of the manufacturers with the condition that the machine is placed in Doyen facility and be allowed to pack for others when the lease party work is finished. Other alternatives such as joint venture with the existing contract packagers or the material suppliers can be worthwhile for Doyen to investigate further.

## **6.2 Suggestions for Additional Research**

With the information on the industry, Doyen needs to further explore the market to determine number of machines it is confident to sale in this region that are directly or indirectly propelled by this facility. This plays as a crucial role besides the contract packaging services economics in determining the feasibility of starting this business here.

Upon determining the services pricing, an additional research involving a more in-depth discussion with their existing clients on the terms and conditions should be carried out as to confirming the readiness of this available market and with some clearer pricing acceptable by them determining the economics of the business. Using some of the information from these discussions, Doyen will be more prepared to market this facility and have more serious discussion with the other surgical gloves manufacturers.

The further study should also encompass the details on the potential joint ventures partners including the likely scope of responsibilities.