



UNIVERSITI PUTRA MALAYSIA

Can Calvary Survive?

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**Malaysian Graduate School
of Management
Universiti Putra Malaysia
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A Case Study by

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Dedication

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SECTION A

Can Calvary Survive?

CRITICAL INCIDENT

Since the beginning of March 1997, the production situation at Calvary had become critical. Suddenly, they were faced with an apparently insurmountable task of meeting the increased requirements for the domestic market, over the already increased demand for production time placed on them by the export orders and the critical shortage of stocks in government hospitals.

The increased demand for the domestic sector was attributed to the fact that plans implemented by the management of Danco Pharmaceutical, were just coming on-stream. Since the acquisition of Calvary Industries towards the end of 1996, the business plan for the coming years had spelt for the up-scaling of domestic sales from RM 2.9 million in 1996 to about RM 13.75 million by the year 2000. The immediate requirements of Danco Pharmaceutical called for production to meet a sales budget of RM 5.5 million in 1997, if the plan of RM 13.75 million was to be achieved.

The inventory level as at January 15 1997 was valued at RM 285, 000 and the situation was so bad that up to RM 75,000 worth of sales were in back-order! It was evident that something had to be done fast enough to achieve desirable inventory levels. Furthermore, Danco Pharmaceutical had embarked on an image building course and quality was being emphasised, from both the perspective of the products it marketed and the services it provided.



This meant that customers' orders had to be fulfilled within the shortest possible response time, factors which Danco Pharmaceutical considered provided them the competitive edge in securing the business from its competitors.

COMPANY BACKGROUND

The company had its origin in 1972 when a group of people got together and established the business. The principal people were a sales representative, Mr. Stephen Lim and a production assistant, Mr. Tan Tock Seng, both of whom were previously with a company called United Pharmaceutical, a British-owned company which went bankrupt that very year. Together with a UK qualified pharmacist, Mr. Chee Seng Chan, they set up the company Calvary Pharmaceutical Chemist, a name derived from the town of Calvary, a suburb of London, where Mr. Chee lived while he was in the United Kingdom.

At start-up, Calvary was housed in a 1,500 square feet rented shophouse in Butterworth and was involved in the manufacture of a limited range of liquid preparations only. A few years later, they expanded their business downstream by opening their first pharmacy under the same name, which was located where KOMTAR now stands. However, the pharmacy did not do well and was subsequently closed down. It was soon after this in 1979, that one of the partners, Mr. Chee decided he had had enough with the business and gave up his partnership.

The remaining two original partners subsequently approached the Kew family, led by Mr. Kew Teng Choo, a qualified pharmacist, to invest in Calvary. In 1979, with Mr. Kew Teng Choo on board as the General Manager, Mr. Stephen Lim as the Marketing Manager and Mr. Tan Tock Seng as the Production Manager, the company name was changed to Calvary Industries, a name that existed to the present day. At the same time, they initiated a production expansion programme, going into the manufacture of solid oral preparations, namely tablets and capsules.

Annual sales in the early seventies were between 70,000 and 80,000 dollars (the Malaysian currency unit then), and by the early eighties, had crossed the one million mark.

In 1981, Calvary was relocated to its new premises, a 6,000 square foot factory lot located in the Prai area, with expansion to its production facilities. Its sales were mainly to clinics and pharmacies in the private sector of the Northern Region of the country, from Perlis to Perak, but not beyond the town of Ipoh.

It was in 1985-1986, with increased expertise in production, that Calvary was successful in securing its first Ministry of Health, Government of Malaysia tenders for the supply of pharmaceuticals. The total contract for the supply of such products as the antibiotics Ampicillin capsules and Erythromycin tablets as well as the antiseptic Chlorhexidine solution, was valued at four million dollars (approximately 2 million dollars a year, as the contract awarded was for a supply over a two year period).

Disaster struck the following year when fire razed through the plant, causing damages of approximately one million dollars in production facilities and inventories. The latter included both raw materials and finished goods. As a result of this fire, Calvary was shut down for about six months and although the plant was fully insured, insurance recovery claims amounted to approximately eight hundred thousand dollars, on account that the plant was under-insured.

After the fire, the factory was relocated to its new premises, where it is currently sited.

Calvary was principally involved in the manufacture of its own range of pharmaceuticals. Production output was to meet both the domestic as well as the export markets in which its products were present. On the domestic sector, Calvary produced to sell to private clinics, pharmacies and private hospitals, which it classified as private sector sales. The other segment on the domestic front was sales to government hospitals, through the tender system.

In addition, to fully utilize its capacity, it undertook contract manufacture for third parties. Contract manufacturing was undertaken mainly for the business friends and acquaintances and of the Kew family, particularly Mr. Kew Teng Choo.

As for the product range Calvary produced, it began with the production of galenical preparations such as syrups and mixtures. With the expansion programmes undertaken, the company introduced preparations in the form of ointments and creams as well as tablets and capsules. In addition, it introduced upgraded

packaging types to further improve the product presentations. This occurred following capital investments in machinery such as the blister-packaging and strip-packaging machines, sachet filling and packaging and semi-automatic and automatic capsule filling machines.

A relevant point to note was that most of the upgrading programmes were implemented towards the end of the eighties and the early nineties. Central to this decision were the combined factors of regulatory compliance as well as the increasing export sales performance. To ensure competitiveness in the international markets it served, Calvary had to significantly improve its product presentation. The local market was, on the other hand, less sensitive to the aesthetics of the product but more sensitive to price offerings.

Competition on the domestic front faced by the company were mainly on two fronts. On one front was that presented by the well established multinational companies (MNCs) which had operations in Malaysia either as agencies or subsidiaries. These MNCs utilised powerful marketing programmes set by their respective corporate headquarters. Implementation of these marketing programmes were supported by heavy advertising and promotions (A&P) budgets. Product pricing was generally up-market and the reason cited for this was the high investments in research and development (R&D) which were to be recovered during the Patent period¹.

Competition on the second front was from the twenty five odd local manufacturers in Malaysia. These companies were characterised by

¹ The Patent period was a time-frame during which the patentee was legally accorded protection against patent infringements and copies.

the fact that they were manufacturers of off-patented products, offering their products to the market generally at a fraction of the costs of the original branded products. The price differentials were in the range of 10% to 30% of the original branded products. The principal reason why such local companies could do so was due to the fact that once a particular substance goes off-patent, the raw materials could be freely manufactured by numerous suppliers. In this manner, market forces of supply and demand dictate prices, translating into substantially reduced pricing of the finished products.

For the period from 1986 to 1993, sales had plateaued at the RM 2 million mark. To overcome the stagnation of sales, it was realized that there was a need for active marketing of Calvary products, given the very intense competition from the local manufacturers. Mr. Kew embarked on establishing a Marketing Department in 1994, which was based in Kuala Lumpur. The Sales and Marketing operations consisted of a Marketing Manager and a team of six sales representatives.

After a short foray of 15 months from August 1994 to October 1995, the sales and marketing operations was found to have had limited success, with untold losses amounting from ill-conceived marketing plans and substantial inventory build-up.

Sales for 1995 was at the RM 2.2 million level, following which a decision was then taken to contract one of the major established local distributors of pharmaceuticals in the country, to perform the Marketing and Distribution function.

To this effect, an agreement was finalised with Antah Pharma Sdn. Bhd., a subsidiary of public listed Antah Holdings Berhad, to begin operations in late 1995.

Antah Pharma increased private sector (government sector tender sales were handled by Calvary directly) sales by approximately 30% from the previous year's sales level. Nevertheless, the 1996 turnover of RM 2.6 million was far below those of Calvary's major competitors in the Malaysian market-place.

One factor which partly contributed to the sales situation in 1996 was the frequent stock out position for most of the major selling products of Calvary, brought about by the inadequate sales forecasting techniques employed by Antah Pharma. The forecast system used was one based on the average 6-months sales history, on which re-order decisions were made for stocks replenishment, such that not more than 3 months inventory was held at anytime.

Towards end 1996, Calvary entered into negotiations with Danco Resources Corporation Sdn. Bhd., for the sale of the company and by end February 1997, marketing operations were transferred to Danco Pharmaceutical Sdn. Bhd., the strategic business unit of Danco Resources Corporation responsible for marketing within the Group.

Strategic Planning

To all intents and purposes, Calvary did not have any strategic plans developed for its long-term survival. Operations were run along traditional lines, without a clear strategic vision, mission statements and goals. Turnover was registered on the basis of whatever sales that came its way.

Operational plans, however, were well established for optimal functioning of the production process and production scheduling was performed on a weekly basis, allowing for re-scheduling should there be an urgent requirement to do so. In this respect, Calvary had the advantage of production flexibility.

With Danco Pharmaceutical on board, the Holding Company, Danco Resources drew up the strategic plans and sales objectives to enable the vision to be achieved. The Vision, mission and goals were espoused as follows:

Vision Statement

To be a fully integrated Malaysian Healthcare company in the promotion, prevention, curing and rehabilitation of diseases in mankind.

Mission Statement

To achieve the leading position in the Malaysian Pharmaceutical Industry by the year 2000 through enhanced customer service and customer satisfaction.

The Goals

- To achieve a total sales of RM 5.5 million in 1997 and RM 8.25 million by 1998.
- To have integrated and coordinated operations to achieve the targetted sales goals and to meet enhanced customer satisfaction.
- To be listed on the Second Board of the Kuala Lumpur Stock Exchange(KLSE) by 1999.

Factory Location, Land Space and Floor Space

The factory had been located at the present site since 1987, after fire gutted the 6,000 square feet facility at 10, Solok Perusahaan 4, Kawasan MIEL, Prai Industrial Estate, Prai. The original land area at Lot 998 was 19,000 square feet with a built-up area, initially of 12,450 square feet (refer to Table A1 of Appendix A). As production demand increased following sales development in both domestic and export markets, an expansion was undertaken in 1994, by way of the acquisition of the neighbouring plot of land of almost similar size which provided the needed floor space to cope with the capacity requirements.

In 1997, an additional production space of 2,000 square feet was obtained by way of utilization of the first floor space above the liquid packing area, for the creation of high volume liquid manufacturing.

Despite the significant doubling of floor space capacity between 1987 and 1994, it was realized three years later in early 1997, that the existing available area was insufficient for continued operations to cope with expected volume development into the next millennium.

However, further expansion at the existing location was not going to be possible as all 38,412 square feet of land space had been fully utilized. There were no adjoining plots of land available for purchase.

Land space in the Prai Industrial Area had a high density of usage, consequent to which it had become scarce. The only possibility would be on a “willing buyer - willing seller” basis. Given this scenario, land prices were expected to be astronomical. Current going prices were in the range of RM 700,000 per acre, with an increasing trend almost on a monthly basis.

Human Resources

The general development of human resources at the company was as shown in Table A3 of Appendix A. Staff strength growth was significant after 1989. With a staff strength of 30 in 1987 and 36 in 1989, representing a growth of 20%, another 16 people (44%) joined the organization in 1992. For the following four years, the numbers remained fairly constant, until June 1997, when a 35% increase in staff numbers to 84 was observed (see Table 1, overleaf).

Table 1: Summary data of Human Resource development

Year	Number of Staff	Number of staff in each Functional Area						Key Staff
		Prod	QC	I M	Admin	Main.	S & M	
1987	30	18	4	3	2	1	2	3
1989	36	19	4	5	5	1	2	5
1990	52	28	7	7	7	1	2	6
1995	57	25	9	5	12	3	3	10
1997	62	32	7	4	14	3	2	11
Wef June 1997	84	51	9	6	13	3	2	11

Source: *Calvary Personnel Records*

Legend:

Prod = Production

QC = Quality Control

Admin = Administration

IM = Inventory Management

Main = Maintenance

S&M = Sales & Marketing

Most of the growth over the decade from 1987 were in the areas of Operations - in Production, Quality Control and Warehousing, although administration also saw an increase along with plant maintenance. During the intervening years, there were fluctuations in staff numbers, and it became more difficult to recruit staff, as most potential staff were looking to the more lucrative electronic industries for employment.

In June 1997, a decision was taken to increase staff strength from an overall total figure of 62 to 84 people, with the recruitment of 22 additional staff. Nineteen of them (86%) were recruited mainly for production; quality control and inventory management each saw an increase of two staff.

This change was the result of a response to the increasing sales trend from domestic marketing through the marketing unit of Danco Pharmaceutical Sdn. Bhd. Furthermore, there was also an increase in tender supplies to the Malaysian Ministry of Health and overwhelming export orders from abroad.

The management philosophy governing career advancements and promotions within Calvary was based on sourcing of managerial talents from within the organization (internal promotions) before external recruits were considered. In line with this philosophy, employees were provided with on-the-job training as well as provided opportunities for job enrichment through job rotations. This was particularly so during the stable years between 1990 and 1996, when some employees were assigned to various positions and departments within the organization, particularly those in Operations.

Besides the training mode mentioned above, however, there were no other formal training provided. A handful of the employees pursued additional training, at their own interest with a special company provident fund, in areas such as basic management and basic computer training.

Promotions to key staff positions from six in 1990 to eleven in 1997 was effected from within the organization. This had resulted in the organization having a core of long serving, experienced staff in key positions, rendering a stable and experienced management group. Each key employee had an average of no less than five years service with the company.

Production Facilities

The introduction and development of the various production facilities can be followed by an examination of Table A4, while the detailed listing, in terms of the manufacturing equipment, are as outlined in Table A5 in Appendix A. Principally, these were for the manufacture of the entire range of pharmaceuticals that Calvary offered its customers. These include the oral solids such as tablets, capsules and granules for reconstitution of suspensions.

Galénicals include the oral liquids such as syrups and suspensions as well as the external preparations including suspensions and lotions, ointments, creams, liniments and drops for instillation.

The introduction of production equipment was done at the various stages of development of the business, to accommodate the increase in the business turnover as well as to cater to the increased sophistication of packaging technologies. The other reason for the adding on of equipment was to enhance production efficiencies through utilization of higher capacity machines.

With all the equipment Calvary had as at June 1997, the available space was maximally utilised. A study of the plant layout plan in Exhibit A1 will indicate the critical state Calvary was in should further expansion be necessary.

When the company began operations in 1972, they were into the manufacture of liquid preparations and at that time, basic equipment comprised mixing tanks and mixers. In 1980, when the production of tablet preparations was ventured into, was there a need to include tablet making equipment of mixers, granulators, ovens and tableting machines. This remained the mainstay of solid dosages until semi-automatic capsuling machines were acquired for the manufacture of capsule preparations. A double layered tableting machine was added to manufacture tablets with two different colours, a hallmark of some of the tablet preparations on the market then which managed to capture significant market shares through a unique presentation.

The occurrence of a fire at the factory in July 1987 was a setback for Calvary, as all equipment were destroyed, except for a few machines which staff managed to salvage. This resulted in Calvary not being able to undertake any production for about six months. However, with the few salvaged machines and while awaiting the delivery of new machines following the fire, Calvary was able to resume tableting a limited range of products to keep the product lines in the market-place.

Loss of production facilities were in excess of one million ringgit but insurance claim resulted in about nine hundred thousand ringgit being recovered. This was because the net worth of the facilities at that time were under insured. Nevertheless, from the insurance recovery, Calvary made new equipment purchases which have been in use till current day.