



UNIVERSITI PUTRA MALAYSIA

**CASE STUDY OF
BIOPRO (M) SDN. BHD.
THE STRATEGIC MANAGEMENT PLAN**

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ABSTRACT

This is a case study report on Biopro (M) Sdn. Bhd. – a latex disposable glove manufacturing company which is experiencing loss in revenue due to global steep slide in the price of latex disposable glove. The company is facing intense pressure from existing customers to match the current market price.

The problem is aggravated by the inefficiency in the company's operations such as malfunctioning of machine, high reject rate, increase in labor cost which have further increased the cost of production.

In the effort to revive the company's competitive positioning in the global market, management by objectives (MBO) has been recommended. This includes the following steps: establish functional objectives, formulate action plans, implement plans and maintaining controls.

ACKNOWLEDGEMENTS

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PART 1 : CASE WRITING

1.1	Introduction	1
1.2	The Company Background	6
1.2.1	Ownership and Management	9
1.2.2	Finance	13
1.2.3	Operation and Production	14
1.2.4	Human Resource	15
1.2.5	Sales and Marketing	16
1.3	The Glove Industry	17
1.4	The Export Market	19
1.5	Key Players in the Industry	20
1.6	Current Industry Trend	22
1.7	Biopro's Dilemma	22

<i>Contents</i>	<i>Page #</i>
PART 2 : PROBLEM STATEMENT	23
2.1 Finance	23
2.2 Management	23
2.3 Operation	23
2.4 Human Resource	24
2.5 Competition	24

<i>Contents</i>	<i>Page #</i>
PART 3: ANALYSIS	25
3.1 Financial Analysis	25
3.1.1 Liquidity Ratio Analysis	26
3.1.2 Assets Management Ratio Analysis	27
3.1.3 Debt Management Ratio Analysis	28
3.1.4 Profitability Ratio Analysis	28
3.1.5 Balance Sheet, Profit & Loss Account and Cash Flow Analysis	28
3.2 Break Even Analysis	30
3.3 Company Situational Analysis	35
3.3.1 External Factors Analysis Summary (EFAS)	35
3.3.2 Internal Factors Analysis Summary (IFAS)	40
3.3.3 Analysis of Strategic Factors (SWOT)	43
3.3.4 G.E. Business Screen	45
3.4 Industrial Analysis	49
3.4.1 The Market Size	49
3.4.2 Competitors	49
3.4.3 Ease of Entry	50
3.4.4 Customers	50
3.4.5 Industry Life Cycle and Market Growth Rate	51
3.4.6 Future Industry Trend	51

Contents:

Page #

PART 4:

ALTERNATIVE STRATEGIES AND RECOMMENDATION

4.1	Comparison of Mission Statement and Directional Strategies CTI verses Biopro	52
4.1.1	CTI Corporate Mission Statement in relation to Biopro	52
4.1.2	Directional Strategies	54
4.2	Alternative Recommendations for Biopro's business Strategies	55
4.2.1	Marketing Strategies	55
4.2.2	Finance Strategies	58
4.2.3	Production Strategies	60
4.2.4	Human Resource Strategies	61

Contents:

PART 5:

IMPLEMENTATION OF STRATEGIES	62
5.1 Establish Functional Objectives	62
5.2 Formulate Action Planning	64
5.3 Implement plans and maintaining self-control	64

PART 6:

CONCLUSION	66
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APPENDICES:

FINANCIAL STATEMENTS OF BIOPRO (M) SDN. BHD

APPENDIX I : COMPARISON BALANCE SHEET

APPENDIX II : TRADING, PROFIT AND LOSS ACCOUNT

APPENDIX III: STATEMENT OF CASH FLOW

APPENDIX IV: MANUFACTURING ACCOUNT

**APPENDIX V : SELLING, DISTRIBUTION AND ADMINISTRATION
EXPENSES**

Part 1:

Case Writing

Biopro (M) Sdn. Bhd.:

- The Strategic Management Plan

1.1 Introduction

Biopro (M) Sdn. Bhd (Biopro), a latex disposable glove manufacturing company, jointly owned by Derek Watts (Derek); a British and two Malaysian entrepreneur has been supplying over 50% of its glove production output to CT International Limited (CTI), San Luis Obispo, California for the past 3 years. Biopro has proven to be a quality conscious supplier for CTI's industrial glove division. Mike Klye (Mike), the owner of CTI was ecstatic when the Malaysian shareholders of Biopro offered to sell their share in August 1998. The deal was closed in just two months of negotiation. Jim Lale (Jim) was appointed as a Chief Executive Officer(CEO) by Mike in October 1998. This was seen as part of the market expansion strategy of CTI through vertical integration.

A grand strategic plan for CTI-Biopro has been written with the objective of expanding Biopro's production capacity to cater for the market expansion of latex examination and industrial clean room¹ gloves in the North America and Asia-Pacific region. Unfortunately, a drastic slide in the price of latex gloves has caused a vast reduction in revenue that has put Biopro in a very tight cash flow position. The cash flow problem has affected the implementation of the strategic plan.

¹ *Cleanroom gloves: Used in precision handling and assembly work in semi-conductor and pharmaceutical industries.*

Since the beginning of 1999, Biopro 's monthly financial report has indicated that the revenue generated was barely at its break-even point. The situation was made worse when one of the dipping lines was shut down due to mal-functioning of the mechanical drive that has been evaluated as beyond repair and too expensive to replace. The monthly production output has dropped from 10.5 million gloves to barely 8 million gloves.

On March, 10, 1999, Jim was going through some of the incoming faxes and had put aside several faxes that he needed to reply.

From the Director of U.S. , Mike:

"Price of latex glove has continued to slide in the U.S. market. We do not expect to pay higher than market price for gloves supplied by our own subsidiary company. You need to cut down cost and expand capacity in order to be in economy of scale. Looking at the Profit and Loss forecast for the four quarters of 1999, we are obviously going to lose money now through December. I need to know what are you going to do to turn things around in terms of sales and profitability. If we keep going at this rate, we will all lose our jobs. Give me a ring and we shall discuss further."

From the director of U.K., Derek:

"Jim, Mike has indicated to me that he wants to expand the company's business which I can't see the logic of such move. As price of the latex glove is at its lowest point, we should just stay above water. Our cash flow is so tight now that I do not know where can we get the

money to upgrade and expand the dipping lines? I definitely will not put in more money into this business. You need to find a way to finance the company's operation now rather than talking about your grand expansion strategy."

From one of the existing customer:

"Please find enclosed two new Purchase Orders, # 1036 # 1037, I have left the pricing for the glove blank although you had confirmed pricing of US38 per case as recent as February 1999. Unfortunately, this pricing is no longer low enough. One of our distributors is able to purchase 2 million pieces of textured powder-free latex examination gloves from YTY Industries Sdn. Bhd. for US30 per case. I am not asking you to match that price but I need you to be more aggressive because it is downright war in the United State (U.S.) with latex glove prices. Please let me know what you can do on this and I will refax purchase order."

Jim was pondering over the strategic objective that was just formulated in just six months ago. What course of action can he take to overcome the adverse change in financial situation of the company and to be in-line with the strategic objective of CTI? As Derek has refused to inject more money into the business, Jim decided to make a call to Mike to convey Derek's view. "Mike, this is a chicken and egg situation here. In order to be cost competitive, we need to modify the lines to reduce the rejection rate that is inherent with the process. All these will require injection of fund into the business. As Derek is not willing to put in more money, it really distract our plan."

Mike replied, " Jim, we should not let this situation deter our plan. The whole idea of us joining this business is to get better quality and lower cost in supply for our industrial product division. Please see if AMP Rubber Product can increase their production capacity to cover those of Biopro's. We need alternative source of supply if Biopro can not match the market price. We must not let this situation affect our overall margin. If Derek is not willing to invest on the improvement of the operations, there is no chance that this company is going to survive. I will meet Derek in UK next week to discuss on the possibility of buy out this company."

While waiting for the outcome of discussion between Mike and Derek, Jim started to study the various operations function of Biopro in the effort to formulating a turn-around strategy, which eventually will be in-line with CTI's strategic objectives. He decided to call upon an immediate meeting with the managerial staff to discuss on the various issues that could have an impact on the strategic plan.

"It is difficult to actually plan of what amount of fund is required to finance the future operations. Maintenance cost on machinery is escalating. The production department has been replacing a lot porcelain mound lately without a pre-plan budget. I am only aware of such expenses after receiving supplier's invoice. Moreover, our directors had actually approved of extended credit terms for our major customers." The Account & Administrative Manager, Ms. Teoh cited.

“ It is not my fault that the maintenance cost has gone up. The machine broke down as often as it wants, some times up to twice a week. Look at the chiller’s compressor and condenser system. We have patched up one area, and another area started to leak. These are just scraps. Why can’t we have a new system to make the operations my efficient?” The Production Manager, Mr. Jegathesan replied. Mr. Jegthesan was also in-charge of the maintenance department.

The Quality Assurance Manager, Ms. Lau K.M. added, “ Replacement on porcelain formers is inevitable. We are currently facing a very high defective rate on pin-hole, and one of the main cause of such defect is the worn out of mould. I was wondering why such expenditure was not previously planned? Other worn out parts at the machinery also caused much vibration in the machine that has also contributes to these defect. We should not be stingy on these expenses as this can improve our rejection rate.”

Jim, who has not intended to have this meeting turned into a battleground, interrupted the explosive exchange of words of his management staffs, “ Stay cool, ladies and gentlemen, it would not solve our problem if we put blame on one another. We need to work on a recovery plan so that it will generate profit for the continue existence of the company. We shall look at all these critical factors and device a plan of action. I was given a two week dead line to submit the plan. The company will need all your corporation in order to make this a reality.”

1.2 The Company Background

Biopro (M) Sdn. Bhd., established in April 1987, in the suburb of Kuala Lumpur under the name of Med-Pro System, was a joint venture company between a British citizen and two Malaysians. The main activity was the manufacturing of disposable powdered latex examination gloves for export to the United States and the European Union (EU). Monthly production capacity was 3.6 million gloves.

In 1992 the marketing focus of the company was expanded to include powder free gloves for both the medical and industrial clean room markets. Initially, chlorination⁽¹⁾ equipment manufactured in the US was purchased. Subsequently², proprietary equipment and processes were developed by Med-Pro and the manufacturing capacity was also expanded.

In 1993 Med-Pro and the LOTAN Group formed a joint venture in order to expand the manufacturing capacity further. The name of the company was changed to Biopro (M) Sdn Bhd. The original two dipping lines of the Med-Pro factory were moved to a new 1.38 acres factory in Port Klang, and two additional dipping lines were added. The capacity for glove chlorination was also expanded. Monthly production capacity has been increased to 8 million gloves.

Three years later in 1996 a fifth dipping line with the ability to make both natural latex and synthetic latex gloves was added. Total production capacity has been increased to 10.5

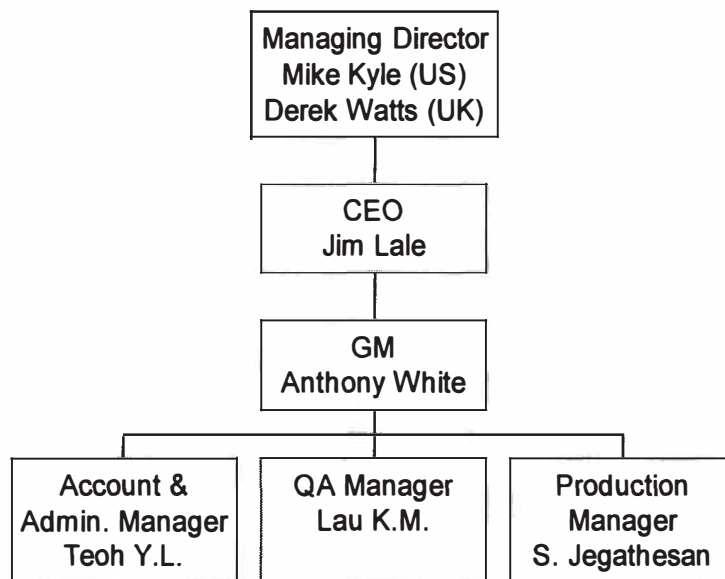
million gloves per month. In September 1998, Mike Kyle (Mike), the owner of an U.S. Scientific and Pharmaceutical Product and latex gloves distribution company, CT International Limited (CTI), San Luis Obispo, California, purchased the 50% Lotan shareholding in Biopro. CTI intention was to expand all support functions, equipment and manufacturing facilities at Biopro, as part of an aggressive strategic marketing plan for synthetic latex and natural latex gloves into the north America market and Asia-Pacific region. The acquisition in the latex dipping plan was part of the vertical integration strategy to further strengthen its position as a major distributor of latex gloves in the Industrial Clean room division market segment.

In October of 1998, Biopro succeeded in obtaining the ISO 9002, EN 46002 certifications in Quality Management System, along with EN medical device registration under EN 455. Biopro has an established record of being a manufacturer of latex gloves with a strong commitment to meeting the stringent quality requirements of its international clients in both the medical and industrial sectors.

² Chlorination: A process of removing powder used as a de-tacking agent in rubber film using an aqueous bath of hypochlorous acid.

The existing organization chart of Biopro can be depicted as follows:

FIGURE 1: ORGANISATION CHART OF BIOPRO AT THE MANAGEMENT LEVEL



In Biopro (M) Sdn. Bhd., there was no mission statement defined, but rather only a Quality Policy statement was used as a course of quality improvement in the implementation of quality management system in the company.

Quality Policy

“Biopro is fully committed to the manufacture and supply of high quality synthetic and natural latex gloves, specially for clean room, dental medical and surgical use - along with creating specific customer value in our product and ensuring that our customer requirements are met at all times.”

1.2.1 Ownership and Management

The interest in shares in the company of those who were Directors at January 1, 1999 were as follow:

Ordinary shares of RM1 each		
<u>Direct interest</u>		<u>Share as at 1-Jan-99</u>
Derek Watts	(U.K.)	500,000
Mike Kyle	(U.S.)	500,000

		1,000,000
		=====

1.2.1.1 Managing Director – UK: Derek Watts

Owner of Nitritex Limited, U.K.

Responsible for sales and marketing of latex gloves the in EU countries.

Derek Watts (Derek), a British citizen and commodity trader in Malaysia from 1987 to 1993.

Derek returned to his home country United Kingdom in September 1993 to set up a distribution company, Nitritex Limited (Nitritex) with the main business activity in the trading of latex disposable gloves, industrial gloves and clean room garments in the EU countries. Derek was in-charge in the marketing of Biopro's production from 1987 to October 1998 through his distribution firm, Nitritex. Nitritex has been buying 25% of Biopro's production output and also purchased latex examination gloves from other manufacturers in Malaysia for export into the EU countries.

There was no mission statement for Nitritex as the company did not have a long-range goal. The objective for continue maintaining the latex glove dipping operation in Malaysia was to ensure that Nitritex can still obtain certain high quality products which had been previously selling to the end-user at a premium price.

Derek 's viewpoint was that Biopro should maintain its growth by targeting those who can afford to pay a premium price for the stringent quality standard product that the company was offering. Biopro should focused on the niche market, and not to compete with other examination glove manufactures that dump their inferior products in the market at the lowest price.

1.2.1.2 *Managing Director – U.S.: Mike Kyle*

- Owner of CT Internatioan Limited, U.S.
- Responsible for management and direction of business in U.S.

Mike Kyle (Mike), the owner of CT International Limited, U.S. CTI was incorporated in 1988 and its business activities was in the distribution of scientific and pharmaceutical products and in the distribution of latex and non-latex medical, examination and surgical, and industrial disposable gloves in the United States.

Mike emphasized on the market expansion strategy of CTI in the North America and Asia-Pacific region and has placed top priority in Biopro to expand its dipping capacity so as to cater for the increased market. According to Mike, expansion of production capacity could contribute to economic of scale in production, which would eventually made the company cost competitive.

CT International's Vision and Mission Statements were as follow:

“Our Vision: To be the leader and innovator in hand and body protection applications with quality and delivery performance second to none.”

“Our Mission: Continuous improvement of our employees, systems, products and services to lead the medical and industrial critical environment/care industries in quality, service and dependability.”

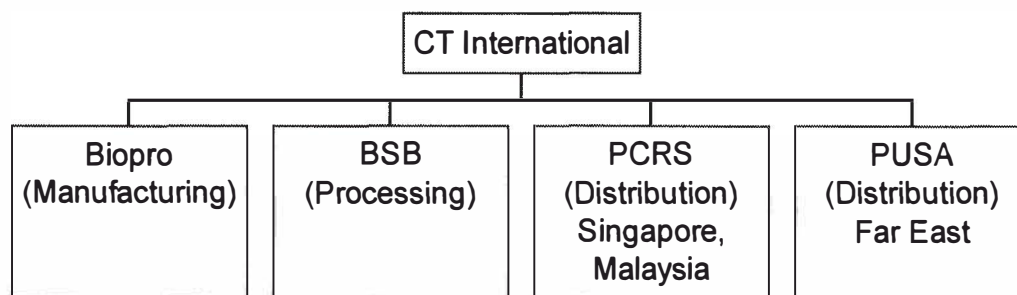
The Strategic Objectives of CT International:

“Strive to become truly vertically integrated. Own and operate manufacturing from glove dipping and cleaning to distribution worldwide. Concentrating on specific leading edge products geared to critical environment companies.”

CTI's subsidiaries in the Asia Pacific Region:

- Biopro (M) Sdn. Bhd. – Latex glove manufacturing facility.
- Bonric Sdn. Bhd (BSB)– Processing of clean room latex glove for ultra clean environment used.
- Pacific Clean Room Services (PCRS) – Distributor of clean room gloves for Singapore and Malaysia.
- PUSA Clean Room Supplies (PUSA) – Distributor of clean room gloves for Far East.

FIGURE 2: CT International 's Subsidiaries



CTI's strategic joint-ventures with Biopro, BSB, PCRS and Pusa was aimed to achieve fully vertical integrated facilities from manufacturing, processing to distribution. The joint-venture with Biopro was a mean to minimize resource acquisition cost and inefficient operations, and to control the quality of product supplied for further processing down-stream. CTI obtained 68% of its supplies of latex gloves from Biopro. And with the planned increase in dipping capacity by end 1999, CTI was aiming to source 100% of its supplies of latex gloves from Biopro in year 2000. CTI's involvement in BSB, PCRS and PUSA was with the objectives of gaining more control over product quality and distributions.

1.2.2 Finance

The financial performance of the company has been favorable from financial year 1996 to 1998 (refer Appendix 1, 2 & 3). The turnover was in up-ward trend, and net profit has been increased by 409% in 1998 from 1996. The financial performance was summarized in Exhibit 1 below:

Exhibit 1.1: Financial Performance of Biopro, 1996 – 1998.

Year	1999 (Forecast)	1998	1997	1996
Turnover, RM	13,860,000	20,036,397	13,690,273	11,155,301
Turnover, unit	90,000,000	105,000,000	68,000,000	52,340,000
Net profit before tax, RM	(1,880,000)	3,104,488	1,092,795	609,282
Retain Earning, RM	0	5,506,629	3,404,141	847,589
Average Selling Price, per 1000 units	154.00	190.82	201.33	213.13

The shareholders had re-invested all the profit into the company as retained earnings for year 1996 to 1998. Forecast Profit and Loss Account has shown that expected loss will be closed to RM1.9 million for year end 1999 should nothing was done to improve on the performance of the company (Refer: Appendix II).

According to the Ms.Teoh, the Account and Administrative manager (AAM) of the company, the cash flow had been smooth until September 1998. One of the dipping lines was in renovation and has not in operation from September through November 1998. Output was reduced by 20% and coupled with the drastic price reduction on latex gloves had put the company in a tight cash flow situation. Competition has forced the company to increase credit terms so as to maintain the customers. The credit terms had been increased from