

OMNICELL/SURGICHEM MERGER INQUIRY

Summary of hearing with Macpac Limited on 10 April 2014

The organisation

1. Macpac Limited (Macpac) told us that it was a privately-owned thermoforming business based in Stockport, south Manchester.
2. Macpac supplied adherence packaging for SurgiChem and had previously supplied Venalink. It also supplied packaging for the food, electronics and retail industries. Adherence packaging provided approximately 30% of Macpac's business. This could range from 20% to 40% depending on seasonal variations with winter being the busiest period.

Macpac, SurgiChem and the supply of adherence packaging

3. Macpac's relationship with SurgiChem was at least ten years old and began due to the geographic proximity of Macpac to SurgiChem. Macpac had helped SurgiChem to develop further the monitored dosage system tray using Macpac's in-house equipment. The first product developed was the Nomad Clear followed by Concise and then by the Nomad Clear II. Macpac said that adherence packaging had not changed substantially over time due to a resistance to change within the market.
4. The relationship between Macpac and SurgiChem had become more formalised with annual supply agreements now in place as the volume of packaging required by SurgiChem had increased.
5. To supply the quantities required, Macpac had invested in new machinery. This cost £350,000 per machine and £6,000 to £10,000 per tool (to help manufacture a particular product). Macpac had four to five machines operating at any one time and a workforce of approximately 50 staff to ensure the machines were used correctly and product quality was maintained.
6. The UK market used predominantly polyethylene terephthalate (PET) for all clear packaging as encouraged by UK recycling legislation. To manufacture an equivalent gauge of PET was difficult and relatively expensive. Macpac manufactured all packaging to the British Retail Consortium Institute of Packaging (BRC/IOP) category one (= high hygiene risk) standard.

7. PET accounted for approximately 60% of the overall manufacturing costs. The cost of plastic changed depending on the season, with the summer months seeing an increase in demand of plastic disposable food packaging. Costs also rose when PET was used as a replacement for natural materials due to supply issues in those markets.

The manufacture of adherence packaging

8. Macpac said that the thermoforming industry could be split into three types of business: (a) small, old fashioned, semi-automated suppliers; (b) privately-owned businesses which could supply the adherence packaging market; and (c) publicly-owned businesses which supplied supermarkets with food packaging. Macpac said that the latter group would not be interested in supplying the relatively small volumes in the adherence packaging market.
9. It was unlikely that there would be another privately-owned business with the capacity to absorb the level of business that Macpac had with SurgiChem. A new entrant would need several machines to produce the volumes of packaging required to enter the market.
10. Suppliers of adherence packaging, when choosing a new manufacturer, would seek a company with the BRC/IOP standard and with the most efficient type of machinery. If a manufacturer had the required machinery, it would take an additional three to six months to set up the required tools to manufacture a particular product.

The supply of adherence packaging

11. Macpac said that the market could be split by two types of packaging: card packaging (supplied by MTS) and plastic packaging (supplied by SurgiChem). Macpac thought that SurgiChem and MTS competed heavily on price and getting customers to switch supplier would require a significant fall in price as customers were generally reluctant to move to a different product.

Barriers to entry and expansion

12. Macpac said that in order for a new entrant to be price competitive in the adherence packaging market, it would need to be producing one million to ten million MDS trays as the set-up and ongoing manufacturing costs were high. A new entrant would also need a significant sales and marketing resource in order to obtain the best price for its product.
13. Macpac said that while the option of supplying pharmacies directly was available, doing so was a risk as Macpac did not have the right type of sales

support for adherence packaging. Furthermore, pharmacies might not buy from Macpac if it did not provide the full range of packaging products (eg seals, labels).

14. Macpac also highlighted the product patents held by SurgiChem and other suppliers as another barrier to entering the market.

Rationale for the merger

15. Macpac felt that the rationale for the merger was to create a single organisation that could supply both plastic- and card-based packaging.

The impact of the merger

16. Macpac said that the merger could have positive or negative consequences for itself in that it could gain a lot of business if the merged company required a UK-based thermoforming business for its operations. It could, however, lose business if the merged company decided to manufacture plastic packaging itself.