

Company Name : Karex Berhad  
Date : 9 September 2014  
Source : Nikkei Asian Review

## Malaysia's Karex Fends Off Competition In Condom Market



Karex CEO Goh Miah Kiat poses with some of the products offered during the FIFA World Cup.

KUALA LUMPUR -- Malaysia did not make it to the recently concluded FIFA World Cup, but its condoms did. And they tasted like a Brazilian cocktail.

Karex, a Malaysian condom maker, was among those to score at the World Cup, racking up strong sales of sheathes during the tournament. The world's largest condom maker says innovations and brand-building through acquisitions are in the offing.

The company has come a long way since its establishment in 1988, CEO Goh Miah Kiat told the Nikkei Asian Review. "From a medical contraceptive, the condom is fast becoming a lifestyle product," he said. That's why, at the World Cup, it offered limited-edition condoms flavored to taste like the Caipirinha, a cocktail made from a sugar-cane liquor. "Innovation is the heart of the company" Together with condoms in the colors of popular teams competing in the tournament, sales from the American continent grew 52.8% on year, far ahead of other regions.

Goh's grandfather switched to condom-making from processing raw latex for rubber products. The rubber gloves industry thrived due to the AIDS outbreak in the 1980s.

But Goh family's risk, venturing into the condom business, paid off. Many rubber glove makers in Malaysia went bust in the 1990s, when the industry consolidated.

Today, Goh is confident. "Asia's (market share) will continue to grow bigger," he said. "It is where the young populations are, and Asia is growing faster than others."

### **Entry point**

Karex, based in the southern state of Johor, produces a total of 4 billion condoms annually in Malaysia and Thailand, mainly for export. It logged a 55% year-on-year increase in net profit to 45 million ringgit (\$14.1 million), on revenue of 285 million ringgit for fiscal year ended June.

The group sells its goods in more than 110 countries with Asia the largest market, followed by Africa, America and Europe. Condoms are the main income contributor, followed by lubricating jelly, probe covers and catheters for the medical industry. Plans are in the pipeline to increase annual capacity to 6 billion condoms by fiscal 2016.

Like most startups, Karex struggled in the early days. The breakthrough came when the company changed strategy, pitching to institutions rather than individual retailers in the '90s. Goh said it took governments around the world time to realize that the cheapest and best prevention against the spread of sexual diseases was encouraging the use of condoms. "Condoms were a taboo-ish subject (back then)," Goh told NAR. "It took a longer time for certain governments to decide" that they could have a positive impact on health.

Karex secured big volume contracts from global and governmental agencies such as United States Agency for International Development, United Nations Population Fund, Population Services International and Crown Agents that bought condoms for distributing in developing countries.

Currently, these governmental tenders make up of 46% of Karex's total sales. A larger portion of revenue, 51%, comes from making condoms for other global consumer products companies such as Reckitt Benckiser, which sells the Durex brand. Karex's own brands, Carex and Inno, take up the remaining share.

"Our flexibility in doing business (set us apart)," Goh said. "The condom industry was dominated by the multinational companies, which were not very flexible in doing business." All senior staff in the family-run business contribute however they can, without being confined to specific positions. Frugality, a common trait among ethnic Chinese business in Malaysia, also helped to propel the company to where it is today. Goh remembers that his family lived on factory premises during the company's tough early years. He had to help out at the factory after school, making and packaging condoms. Some of Goh's uncles were involved in making and improvising the machinery.

Unlike some established foreign makers, which were once so dominant they could ignore customer feedback, Karex, says Goh, tries to meet consumer needs.

"Everyone is a customer, whether the company is big or small," explained Goh, aged 36. "That's our philosophy of doing business. (That's why) we are able to provide all types of condoms to our customers. We never say no to our customers."

### **Taste the difference**

Karex mixes up production so users can have fun. "People's requirements in every country are different," Goh said. "In Asia, people have an obsession with thin condoms. In Africa, they are concerned about the safety of the products. They also look into colored, flavored and novelty-types of condoms. We have customers in Indonesia who request durian-flavored condoms. For our clients in Amsterdam, they ask for marijuana-flavored condoms."

Karex made only about 7 million ringgit in sales when Goh joined the company after graduating in 1989. Leading the company's marketing operations, he traveled around the world, participating in trade shows and AIDS conferences to get a better understanding of his industry. There are 2.7 million people infected with sexually transmitted diseases every year: A third of them are between 13 and 19 years old, Goh said. He feels it is his company's responsibility to help spread the safe sex message.

"If you give youngsters a regular product, they are unlikely to use it. They may think it is not cool. But if you were to look into what they want and give them what they want, I think that's the key of this business." The company's condoms come in various colors, sizes, flavors and thinness. There are also condoms that glow in the dark, in tattoo designs and studded.

"Condoms are something that people are willing to pay for," Goh said. And the better the quality, the happier the consumer.

By the year end, Karex will launch polyisoprene condoms, which are synthetic, ultra-thin and allergy-free. "If you wear it, it (feels more like) skin," he said. "Some people say its more natural-feel." These premium condoms are targeted at the U.S. and Europe in particular, where customers tend to get irritated by latex. Karex wants to break the current domination of Durex and Ansell in these markets.

"Karex is very strong in innovation and manufacturing. In terms of branding, we are not there yet. That is why we need to acquire."

### **ONE to watch**

The cost of producing a condom is small compared to branding. To build up a reputation takes time.

Karex is therefore looking to buy Global Protection, a U.S. company that sells condoms under the brand ONE. Karex will pay \$6.6 million for a 55% stake in Global, one of Karex's long-time customers. ONE condoms are popular among U.S. youths, who constantly give feedback through social media to company.

Some of the packaging for ONE condoms is designed by users through contests. Karex will capitalize on the brand to sell condoms outside of the U.S., especially the Asian region. "Instead of changing people's mindset, it is easier to sell by offering brands deemed superior," Goh reasoned.

In 2012, Karex went public as Goh tried to raise funds for expansion. Condom sales are expected to reach 44 billion by 2020, according to a Wall Street Journal report that cited market research company Global Industry Analysts. "My family could have kept the company private," Goh said. "But I felt that there's so much opportunity in the industry to share. There is opportunity to grow the market and position further. Today (after the listing), people know more about the company. So far, it has been very positive. We could attract more talent to work with us." Since listing in November last year, Karex's share price has swelled 50% to 2.76 ringgit at closing on Sept. 5. The company has a market capitalization of about \$383 million.

"We want to grow our own brands, which only make up 4% of total sales, through acquisitions," Goh said. "We are completing the due diligence of (buying Global Protection) by early October. It is too early to state any figures but we definitely want to expand further."