



DISCOPYLABS

The Complete Software Manufacturing Solution

Perfect Original Quarterly

FALL 1994

DISCOPYLABS' NEW MARKET DIRECTION

A Right Turn to Turnkey and Project Management

By Norman Tu, President

Responding to the new realities of the software industry, DisCopyLabs has been busy "reinventing" itself in the past year into an organization that can better meet the changing needs of software publishers.



We began our company 13 years ago as a software duplicator and expanded rapidly by growing into a software manufacturer. Now we have evolved into a turnkey/project management

company to meet the industry's demands and expectations.

What has remained constant, however, over this evolution is the same high quality of our service and performance. It was, is, and will be the foundation of our success and long-term relationships with our customers.

Our new focus reflects the developments that are challenging software publishers of all sizes, and will continue to do so throughout the Nineties. It enables us to provide the important value-added services of turnkey and project management operations that our customers want and need.

The software industry began to change significantly about three years ago. The average retail price of products that were then over \$300 dropped to less than \$150. This put strong pressure on software companies to reduce expenses, especially in the COGS. It was clear that pricing and margin pressures on software companies would continue as competition increased. Many companies

shrank their operations functions to a bare minimum.

Customers looked to us for help and ideas, and we responded with cost-cutting services in such areas as production planning, package design, purchase of materials, inventory management, and fulfillment. They wanted us to free them of in-house production operations, which was not their specialty, so they could profitably focus their attention on product development and marketing.

To help our customers succeed in this new, tough environment, we knew we had to offer more value-added services that made them better able to compete. DisCopyLabs already had developed a broad infrastructure over the past 13 years in purchasing materials and manufacturing capabilities that formed a solid foundation on which to build new solutions for them.

We realized that our essential business was not copying, but delivering information from its publisher to consumers in virtually any format: disks and diskettes, tape and tape cartridges, CD-ROM, CD-R, electronic distribution. With some re-orientation and planning, we knew we could increase our contributions to the industry.

We refocused ourselves to be a turnkey and project management company, building on our strengths of quality performance, long-term experience in delivering customer satisfaction, large capacity, significant technical and financial resources, and a strong commitment to do whatever it takes to meet customer needs.

We added skills we needed by hiring people experienced in packaging design and print buying, as well as turnkey and project management experience, and in sales and

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New TeleCopy Service Cuts Turnaround Time

A new DisCopyLabs service, called TeleCopy, allows customers to electronically transmit their software master to us in minutes and get back in a short time - sometimes the same day - their products, assembled and ready for shipment.

"No matter where their location, companies can transfer their masters to us in minutes instead of hours or a day," said David Tu, Executive Vice President. "If we receive one in the early part of the day, and if the volume is moderate, we can duplicate, assemble and air freight the order for delivery the next morning."

"Or, if our customer is located within reasonable driving distance of our facilities in Fremont or Duarte, the copied programs can be picked up or delivered the same day.

"We believe we are the only turnkey software manufacturer in California to offer so fast a service," David said.

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New Sales Group is Heavy on Project Management Experience

To more effectively serve the growing needs of our customers for turnkey and project management services and support.

DisCopyLabs' sales function has been reorganized and refocused.

Sandra Woodrow, a 10-year veteran of the company, is the Assistant Sales Manager, reporting directly to Norman Tu, President.

She manages the day-to-day operations of a new staff with a great deal of experience in the critical skills of print and packaging buying and turnkey solutions.

Gregory Holsen and Grayson Martin have joined DisCopyLabs as Turnkey Account Managers.

Greg, during his five years in software manufacturing, has designed multiple unique software and hardware packages. He also has conducted professional seminars on packaging design and environmental packaging.

He is very knowledgeable about software distribution channels and the process of obtaining shelf space by manufacturing effective retail-ready software packages.

Greg graduated from the University of California at Santa Barbara and enjoys white water-rafting and snow skiing in his free time.

Grayson Martin began her marketing career with Xerox's Business Services Division selling print. After Xerox, she was in video duplication for four years, providing turnkey and fulfillment services to the corporate clients of Allied Film and Video.

A graduate of Arizona State University with a degree in broadcast journalism, she also studied graphic arts.

Her leisure time activities include horse-back riding and golfing.

Paula Eubanks-Major, our new Sales and Support Administrator, brings to the company 12 years purchasing/buying experience in

manufacturing, retail, and education.

She graduated from San Francisco State with a BA and MA in Industrial Design. Over

her career, Paula has been responsible for project financial management, contract negotiation, in-house training, special events planning, international purchasing, and procedure development.

Her varied personal interests range from hiking, ballet, and electronic broadcast graphics to jazz and classical music.

"Through our sales and customer service staff, we are well prepared to help our customers meet the hard demands of the very competitive software markets, now and in the years ahead," said Norman.



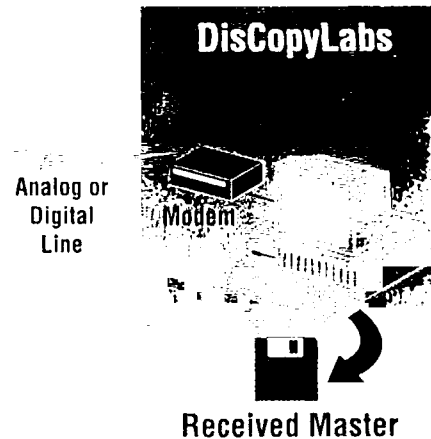
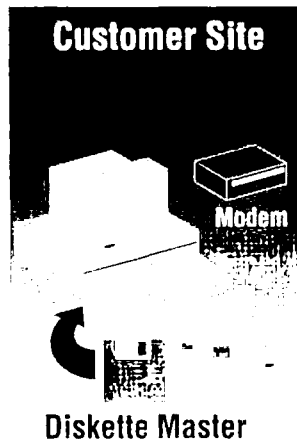
DISCOPYLABS

48641 MILMONT DRIVE

Left to right: Turnkey Account Managers Gregory Holsen and Grayson Martin; Sales and Support Administrator Paula Eubanks-Major; Assistant Sales Manager Sandra Woodrow.

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TeleCopy Saves Time



TeleCopy is made possible through custom-designed software created by DisCopyLabs. An advanced message protection feature of the service assures that the transmission of masters is accurate and free of possible line errors.

DisCopyLabs offers two levels of TeleCopy Service: Silver and Gold. The Silver service utilizes a V- fast modem operating at speeds up to 28.8Kbps and transmits a 1.44 MB diskette in under 10 minutes.

The Gold level works with ISDN at up to 128.Kbps and can transfer a 1.44 MB diskette master in less than 4 minutes.

"This fast service can often result in an important competitive advantage to customers who sometimes need an especially speedy turnaround. TeleCopy can save a significant amount of time, even over overnight air delivery, for those occasions where every hour is important", according to David.

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Turnkey Project Management

customer service.

We have arranged for our staff to take professional training in inventory and materials management, turnkey and project management, and related disciplines.

In short, we have made a substantial investment in re-engineering our systems, re-allocating our resources, re-training our people, and re-thinking our corporate mission. While excellence in duplication may have met the prime needs of the software industry yesterday, we are prepared—for the more difficult and more dynamic requirements of our customers today and tomorrow.

How is the "new" DisCopyLabs doing? Well, the proof that this value is desired has been in the quick market acceptance of our actions. Already six new turnkey customers have chosen us as their software manufacturer.

Moreover, we recently won an impressive contract for turnkey and project management support from one of the largest high-tech companies in Silicon Valley. This company is well known for the exacting standards it applies to vendors—and holds them to it. DisCopyLabs won their vote of confidence by beating out 13 other vendors.

We know that our total approach to software manufacturing, the depth of our experience, our reputation for quality and responsive were critical factors in our selection.

And now, our expanded capabilities as a turnkey and project management company positions us to serve your requirements in these challenging times even more effectively.

We would like to hear your thoughts on this and especially on other areas where we may be able to provide solutions. We truly believe that your success is our success.

The addition of the Shop VI module to DisCopyLabs' Inventory Tracking System enables the company to implement the FIFO (First-in, First-Out) inventory scheme.

David Tu, Executive Vice President, explained that the upgrade gives the company the ability to track the status of customers' inventory within minutes, as compared to an average time of two to three days previously under a mostly manual system.

Through the new Shop VI upgrade, each part number, per box or pallet, gets a reference tag bar-coded with such data as the part numbers, the date and time received, and the supplier.

At the same time, each part gets a location number where it is stored, which is also recorded. This info is entered into the computer

Upgrade to Materials Tracking System Gives Customer More Timely Inventory Data



tracking system.

Utilizing a portable bar-code reader, employees can immediately determine the status and location of materials, and can cross-check what was received against the original order.

In addition, all this information can be posted quickly to the MRP

purchasing systems of customers, keeping them up-to-date with more detailed reports which are more accurate and faster than was possible when most of our inventory management was manual," said David.

"This upgrade is one of the continuing investments we are making in systems and equipment that can help our customers make more informed management decisions, and thus become more competitive," David stated.

Free Consultation Offered to Customers on Designing Successful Packaging

The need for successful, attractive packaging is growing more important as the competition for consumers' interest continues to heat up.

The increase in consolidations among major retail and non-traditional channels, as well as the increase in new titles, is causing software developers to re-examine the market value of packaging.

While mindful of the cost that packaging represents, software companies must walk a fine line between attractive packaging and controlling production expenses.

In evaluating a package's effectiveness, several questions to be answered include: does it do all it can to grab consumers' attention; is the buy message appealing—clearly stated benefits and supporting graphics, if appropriate; and does it stand out in a positive way from the competing products around it on a shelf.

In short, does it sell?

DisCopyLabs offers customers its extensive expertise and capabilities in package design and construction, which can be very helpful when cost-containment is critical.

With more than 30 million software packages produced over the last 12 years, the company is an excellent resource for packaging guidance and fresh ideas.

"We know from experience the marketing value of good packaging, and it is considerable," said Greg Holsen, Turnkey Account Manager.

"We offer a no-cost, no-obligation package evaluation and consultation that can mean the difference between a so-so package and a winning one on retailers' shelves or display racks," he said.

For more information, please call your account manager at 510-651-5100.

The use of video to promote products or to educate consumers about software products is becoming a very popular way to communicate creatively and effectively.

At the same time, fast-evolving video technology is leading to many questions about its terminology and the use of various video products.

Defining several basic terms will help your understanding and communication in "video language."

Edited Master - the first generation of the fully edited videotape, the final program. It includes all video, all audio and all signals. It's safer not to use an Edited Master for the duplication process because, if damage occurred, the entire editing process would have to be repeated to create a new master.

Duplication Master - also known as Dub Master, is made from the Edited Master. This second generation master should have a mixed audio track and include the signals for bars, tone, and slate.

Protection Master - or Safety Master, is usually made from the Edit Master and would include the same information as the Edited Master.

Video Tape Formats

VHS - this familiar term refers to home

Understanding Video Terminology and Applications

video industry because, initially, it recorded two hours of programming. Today, VHS cassettes are loaded with a maximum of 165 minutes of tape stock for recording in Standard Play (SP).

S-VHS - introduced in 1987 by Panasonic and JVC, is a quality improvement over standard VHS. It features high bandwidth recording with separate luminance/chrominance signal processing for better color imaging, with approximately 400 lines of horizontal resolution compared to 240 for VHS.

3/4" U-matic - this was the first practical cassette format. Today it is used as a low cost production format, professional viewing applications and small market broadcast/cable program distribution.

Betacam SP - Betacam SP has become known around the world as a production format and has replaced 1" for editing and mastering. This format features a wide

bandwidth, four audio channels, 90 minutes maximum record time and a reputation for reliability.

1" Type C - this has become the primary format worldwide for broadcast production and distribution.

Color Television Standards of the World

NTSC - National Television System Committee, 525 lines, 30 frames per second, was adopted by the U. S. in 1953, and has become the standard for North America, Japan, and several other countries.

PAL - Phase Alternation Line, 625 lines, 25 frames per second, was developed in West Germany and adopted by several European countries in the mid-1960s.

SECAM - (System Electronique Couleur avec Memoire) - 625 lines, 25 frames per second, is a French standard adopted by Eastern Europe, Russia and parts of the Middle East in 1967.

DisCopyLabs has been providing VHS duplication services since 1991. The addition of 100 Panasonic VHS recording decks allow us to offer another valuable service in addition to our extensive software manufacturing capabilities.

MOVING TOWARD JUST-IN-TIME

On-Demand Printing of Polybags Cuts Cost and Inventory Needs

Another cost-and-time-saving packaging feature - imprinting on polybags - is now available to customers.

According to Mary Kung, Director of Manufacturing, DisCopyLabs can print bar codes, UPC, graphics, license and other information directly on polybags.

"With this capability, customers who use license envelopes and license boxes, which normally require a three- to four- week lead time, will receive disks in polybags within three days. Since DisCopyLabs provides standard plain polybags, this will cut the cost of goods and waste, freeing up cash for other needs," said Mary.

"As bags are needed, DisCopyLabs on-demand print capability can provide them quickly, and there's no minimum volume required for the

standard size package of five inches by six inches."

The company also can handle color printing needs through one of its qualified vendors. The cost of this will be very competitive to the cost of ordering from a printer directly, and DisCopyLabs handles all details



A company can never be too sure it knows what customers think about it, or what they like and don't like about its operations, and what new services they would like to see.



William Jacobson

To find out, DisCopyLabs recently undertook a formal survey. The survey was conducted by William Jacobson, Business and Marketing Consultant, and involved extensive interviews with twenty-five DisCopyLabs'

customers and software industry contacts.

Here are some of the survey highlights.

Software Manufacturing - An Appreciated Outside Function

The survey confirmed that software manufacturing is a function that will continue to be done outside. Several reasons were given to support this decision:

1. The necessary capital equipment investment
2. The variable volume requirements and production capacity needs
3. The additional operational and support staff and management required.
4. The cost to perform the function (inside is more expensive than outside)

Interviewees stated that their expertise was developing software rather than in manufacturing it, and were glad to have a resource like DisCopyLabs, which specializes in manufacturing, provide this capability.

Factors in Choice of Supplier

Interviewees were given a list of 16 factors to rate in choosing a supplier and asked to indicate which were most important. Table 1 shows the highest ranking factors.

Quality rated as the highest factor, primarily because a faulty product would reflect poorly on the company's reputation. The survey showed

Factor	Average Score (3.0 is highest)
Quality/Accuracy	2.90
Delivery/Turnaround	2.70
Account/Customer Rep	2.65
Geographical Location	2.12
Price	2.00

Table 1 - Five Highest Factors in Choosing a Supplier

Survey Tells What Customers Want

that DisCopyLabs is widely known for its quality and was rated good or excellent by all respondents.

Delivery and turnaround ranked very high as the buyer of software services is under stringent time pressures which, in turn, are transferred to his supplier. These include:

1. Being at the end of the production chain - last to get the software
2. Slippage in software schedules, and last minute errors being discovered
3. Unchangeable customer commitments and release dates

As a result, the customer prefers doing business with a supplier with facilities close to him, and one who can provide quick turnarounds. Unfortunately, no one sees the nature of the business changing in the near future.

Surprisingly, high on the list was the importance of the Account and Customer Service Representative. Customers want to deal with individuals who are knowledgeable, easy to work with, and who stay in touch with them through all aspects of the job.

From their perspective, the ideal relationship is that the software manufacturer functions like an in-house resource, always there and ready to meet their needs, no matter how demanding.

Price was definitely important; however no customer made his decision solely on price alone. As one customer emphasized: "I'm willing to pay for what I get. I don't shop for the lowest price, but I must get value for a higher price."

New Services

Interviewees were also asked what new or expanded services they would like to see. These included:

- An economical low-

volume manufacturing service - for short runs

- European manufacturing service - for growing foreign business
- 800# order taking and outbound tele-marketing
- End-user technical support

In summary, from order taking to delivery, the industry is very interested in any service which allows the industry to sell and deliver to more customers in a quicker, easier, time-efficient and more cost-effective manner.

CD-ROM

Although interviewees were enthusiastic about the technical benefits of CD-ROM, they were cautious concerning how fast the media would affect them. The CD-ROM installed base is growing with 10-12 million units estimated to be shipped in 1994.

Nevertheless, all anticipated an increase in floppy disks next year due to increased sales, new products, and updates. CD-ROM unit volume was anticipated to be less than 5 percent of the total media utilized.

Most Liked Qualities

When questioned what they especially liked about doing business with DisCopyLabs, customer identified the following key qualities with comments:

1. Quality/Premium Product

"What created DCL was the quality of the product they put out."

"In 3-1/2 years we've had only three or four defective media."

2. Dependability/Security

"When I give them a job, I know it's going to be done right."

3. Responsiveness and Accessibility

"They'll take care of things."

"Their thoroughness and ability to do what's needed, even special requests."

4. Proactive Attitude/Forward Thinking

"They approached us on turnkey—the other vendors didn't."

"They look to the future and have a good idea of where they're going."

Results of the survey were presented to the DisCopyLabs managers and staff to allow them to better service customer needs.

LOW VOLUME.FAST TURNAROUND COPY SERVICE

On-Line Copy Relocates to Larger Facilities

On-Line Copy Corporation, an affiliate of DisCopyLabs which specializes in short-run, fast turnaround diskette duplication, has relocated to larger, self-contained manufacturing facilities.

On-Line Copy's new location is at 48877 Kato Road, Fremont.

Although On-Line Copy specializes in runs of 2000 or fewer units, the company does have the ability to handle media copying jobs of any size.

The company also provides silk-screening of logos and text directly onto the diskette jacket - the plastic case - using any PMS color ink. This creates a unique diskette suitable for new product releases, trade shows giveaways, and special attention applications.

This capability also includes VHS tapes and other media formats, as well. Custom silk screening can be turned around in a few days, depending on the job size and art work requirements.


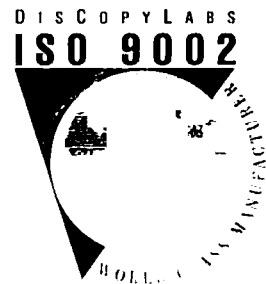
On-Line Copy's new diskette duplication service, called Copy Connection™ allows distance customers requiring quick turnaround service the ability to download their diskette master directly into On-Line Copy.

On-Line Copy will provide up to 1000 diskettes anywhere in the continental United States by 10:30 the next morning if the masters are received electronically by 12 noon.

The processes utilizes On-Line Copy's proprietary software which is loaded into the

customer's PC. The customer can choose to use a standard modem or, if many masters are to be sent, a high speed data transmission service. The service is now in operation for key accounts and is being developed for general availability.

Customers interested in overnight turnaround service should call On-Line Copy at 800-833-4460.



DISCOPYLABS
The Complete Software Manufacturing Solution
48641 Milmont Drive
Fremont, CA 94538-7354

DisCopyLabs - Fremont

48641 Milmont Drive • Fremont, CA 94538-7354

(510) 651-5100

Fax: (510) 651-1679 Production & Packaging

(510) 651-1751 Shipping

(510) 651-2261 Administration

(510) 651-0549 Customer Support

- Sales
 - Greg Holsen x211
 - Sandra Woodrow x200
 - Grayson Martin x273
- Customer Service
 - Belen Sales x272
 - Kathy Table x249
 - Jim Trimble x270
 - Randy Davis x280
 - Trudy Lamb x278

DisCopy Labs - Duarte

1540 Flower Avenue • Duarte, CA 91010

(818) 303-1571

Fax: (818) 303-1570

- Sales Greg Holsen
- Customer Service Rocio Medina

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