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LAW FIRM



CONTRACT MANUFACTURING OR MAKLON BRING YOUR PRODUCT TO LIFE WITHOUT THE HASSLE OF OWNING A FACTORY

When operational efficiency is essential, businesses turn to maklon — entrusting production to specialized experts, while they focus on scaling, innovation, and strategic growth.

CONTRACT MANUFACTURING (MAKLON)

In today's fast-paced business environment, both local and international investors are increasingly leveraging contract manufacturing (maklon) to supply goods to and from Indonesia. It is essential to understand the underlying reasons why so many investors—opt for this business model.

What is Maklon?

Maklon is a production arrangement in which an investor (the principal) outsources the manufacturing process to a third party to create the product. The manufacturer produces goods according to the principal's specifications and may take part in various stages of production, including design, manufacturing and shipping, depending on the needs of their principal. This setup allows businesses to scale production without investing in factories, equipment, or labor.



THE BENEFITS OF MAKLON

- **Saves Time & Capital**, no need to establish a company, recruit manpower, obtain relevant licenses to carry out the services provided by the manufacturer or other administrative and technical matters.
- **Focus on Growth**, resources can be directed to other essential activities such as marketing, distribution, and R&D.
- **Adaptive and Flexible**, if the partnership doesn't work out, you can simply switch to another manufacturer.
- **Low Entry Barrier**, this model is useful for entering new markets like Indonesia, maklon enables principal to operate without establishing a full legal, knowledge or physical presence.
- **Financial Predictability**, this model assist principal forecast expenses better and avoid unexpected capital outlays.
- **Access to Local Expertise and Compliance**, manufacturers typically have experience with local regulations, certifications, & supply chains, reducing compliance risks for the principal.



THE RISKS OF MAKLON

- **Non-Outsourceable Activities**, certain critical tasks, such as trademark registration and opening a local bank account, must be handled directly by the investor and cannot be outsourced to the manufacturer.
- **Data Security Risks**, sharing sensitive business data and proprietary information increases the risk of data breaches or unauthorized access.
- **Currency and Payment Risks**, International maklon arrangements may expose principal business to currency fluctuations, payment delays, or banking complications.
- **Limited Control Over Operations**, outsourcing manufacturing means principal have less direct control over production schedules, labor practices, and compliance with standards.
- **Know Your Manufacturer**, Not all manufacturers offer the same level of quality and reliability. Principal need thorough due diligence on potential manufacturers to ensure they meet your standards and requirements. Choosing the wrong manufacturer can lead to wasted time and resources. Switching manufacturers mid-process may cause significant delays in your product's time-to-market.

COMMON INDUSTRIES USING MAKLON

Industries that commonly embrace this business model includes the following:



Cosmetics & Skincare

Maklon is widely used by beauty brands to produce creams, serums, lotions, and masks without owning a factory. This allows brands to scale fast, comply with BPOM regulations or other relevant authorities, and focus on marketing.

Pharmaceuticals & Supplements

From vitamins to herbal capsules and jamu, many health brands outsource production to certified manufacturers to ensure manufacturing compliance with BPOM regulations or other relevant authorities.



Garment & Apparel

Fashion labels use CMT (Cut, Make, Trim) services to produce clothing under original equipment manufacture models, to ensure manufacturing compliance. This enables small and medium brands to run lean without investing in textile facilities.

Household & Cleaning Products

Brands producing detergents, hand soaps, and surface cleaners often rely on maklon partners to meet formulation safety and packaging standards at industrial scale.



KEY CONSIDERATIONS

Contract manufacturing (Maklon) can streamline business operations, but if not managed carefully, it can lead to legal and financial disputes

Register Your Intellectual Property

- If ownership of the intellectual property is not explicitly defined in the contract, it is advisable to register the trademark under your own name or entity.
- Without proper registration, your brand may lack legal protection – or worse, it could be registered by your manufacturing partner.
- Trademark disputes are a common issue in maklon arrangements when this critical step is neglected.



Prepare a Comprehensive and Well-Defined Contract

Maklon agreement should clearly define several following key provisions:

- Roles and responsibilities – including ownership of materials, production responsibilities, and quality control oversight.
- Payment terms and tax obligations – such as payment schedules, applicable taxes (e.g., VAT/PPN, income tax/PPH), and invoicing procedures.
- Delivery timelines and performance standards – including agreed delivery dates, quality benchmarks, and any associated penalties for non-compliance.
- Confidentiality – the obligation to maintain confidentiality of all trade secrets, proprietary formulas, and business information disclosed during the course of this Agreement.
- Termination and dispute resolution – outlining the conditions for contract termination, as well as mechanisms for resolving disputes, such as arbitration or mediation.



Taxation Aspects

- Under Indonesian law, maklon arrangements are classified as a taxable activity which subject to PPh and PPN.
- If the contract lacks clarity or the transaction is structured in a way that resembles a sale, it may result in incorrect tax treatment and potential compliance issues.



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Don't hesitate to reach out, **we're ready to help!**

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