

## Case Study: Florex, Costa Rica

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As owners of one of the largest cleaning companies in Costa Rica, Silvia Elena Chaves Quesada and Carlos Araya Arias had built a successful company that served large, mainly governmental customers. Increasingly, however, management began to notice a pattern of allergies, respiratory problems, and illnesses amongst the cleaning women who worked for them, which appeared to be attributable to the cleaning products used by their employees. Upon close inspection of the available cleaning products available on the market in Costa Rica, Silvia and Carlos realized that there were a number of chemicals in the products the company was using that were harmful not only to people, but also to the environment and some of the ingredients in these products had even been banned in places like the European Union, but were still available in Costa Rica.

### **Business Challenge**

Costa Rica is a particularly competitive market for cleaning supplies given the ease with which international brands enter the market due to business-friendly policies of the government. After conducting research into products available in the market that would be more environmentally friendly and would not cause harm to users, Carlos and Silvia realized that there were virtually no locally produced “green” products available in the local market that could be used by their staff.

### **Analysis of alternatives**

Unable to continue to operate a business that was causing significant ill health to its workers, Silvia and Carlos had to reexamine their business model and considered a number of options.

*Discontinue cleaning operations* – Without the raw material necessary to operate the cleaning business, the owners could discontinue operations and explore new business ventures. In this scenario, the owners would no longer be the cause of ill health to their workers, but this would lead to lack of employment for the company’s cleaners as well as the loss of income for the owners.

*Develop new cleaning products* – After conducting analysis of available products in the market, it became clear there was a gap in the market for economically priced, environmentally-friendly cleaning products in Costa Rica. The market for “green” cleaning products was growing quickly in developed economies, but this trend had not yet presented itself in Costa Rica, where conventional cleaning products were more attractive, particularly from an economic perspective.

Without product development and chemistry backgrounds, however, it was unclear that Silvia and Carlos had the capability to develop these. In addition, the company had no experience in product manufacture or distribution and the development, manufacture and distribution of these products would require capital not available to a small business.

*Target industrial vs. consumer market* – The company’s roots as a supplier of industrial cleaning services would serve it well in understanding customer needs and requirements in the industrial market. This customer segment, however, tends to be less interested in using ecologically sensitive products and is dominated by one conventional cleaning company that has strong market share. Entering the consumer market, however, would require a marketing and distribution expertise not currently present at the company.

## **Action Taken**

Recognizing their lack of experience in product development, Carlos and Silvia attended an Inter-American Development Bank (IDB) workshop that focused on how to bottle and work with chemicals. From there they began experimenting at home and collaborating with the help of an IDB-funded chemist from Europe who helped them develop their first environmentally-friendly product.

Working with the IDB chemist, the company chose to focus on the development of specific-use cleaning products, which was preferred in the local market, rather than the development of the all-purpose cleaning products popular in the North American market. It has positioned itself as 15-20% cheaper than conventional international competitors and 40-50% cheaper than the international "green" products. In comparison to locally-produced conventional products, however, Florex is more expensive, commanding a 15% pricing premium to its competitors.

The company's first product entry targeted the industrial market, where the company had a more solid understanding of the customer need. By focusing on a specific niche and geographies, the company began to build a solid footing with organic pineapple producers located in the Zona Norte, for example, where the use of environmentally sensitive cleaning materials is important in order for exporters to qualify for organic or other distinctions for their products.

To fund manufacture and distribution, the company pursued a partnering strategy and sought out distribution networks, export opportunities and strategic partners. One of these strategic partners, CONLCIT (Centro de Investigación y Desarrollo del Gobierno), provided a \$310,000 loan to build the company's "green" production facility, which opened in 2009. In addition, CONLCIT helped Florex in its marketing efforts, by advertising its products at local fairs, on public television and on the radio. The original cleaning company still exists, employing 400 cleaners, and operates as a separate sister company and utilizes Florex products to deliver its services.

## **Results**

The company's first customers were in the institutional market and included customers such as hotels and resorts, national parks, health clinics and schools, a logical target market given the company's history as an institutional cleaning company. To date, this market has largely driven the company's results, but management believes the company's future growth rests on its success penetrating the consumer market, which is four times as large as the institutional market, driven largely by the addition of Wal-Mart as a customer and the on-boarding of additional distributors in Costa Rica and Guatemala. To support this mass consumer rollout, the company has developed a marketing campaign aimed at changing consumer mindsets as well as training consumers on environmental practices. In 2010, the mass consumer market represented 16% of total revenue, up from 1% in 2008.

In addition, the company has recently built a "green" production plant so that its process would be environmentally friendly from the ground up and its working space would be a model of sustainability. Further penetration of the mass consumer market as well as exports to Guatemala, Panama, Honduras and El Salvador through local distributors will enable the company to utilize the significant spare capacity it has available in its new production facility. The company continues to innovate, recently introducing biodegradable bags, concentrated products and recyclable packaging.

The COW-F Framework provides a means of assessing the sustainable growth potential of a firm.<sup>1</sup> Sustainable growth can only be achieved if a firm can satisfy all four of its stakeholders: customers, owners, workers, and future generations. The following table offers a summary of the value create for these four different stakeholder groups by Florex.

**Florex and the COW-F Framework:**

<b>Stakeholder Community</b>	<b>Current Value Offering</b>
<b>Customers</b>	Florex provides its customers with a world-class, environmentally-friendly product and uses its small marketing budget to change mindsets and train consumers on environmentally responsible practices
<b>Owners</b>	As joint-owners of the company, Silvia and Carlos have historically reinvested in the business to fund growth, but have recently begun to draw salaries from the business as a result of its success. They are planning on creating a more formalized board to support the company in its growth
<b>Workers</b>	The company was founded as a way to improve the lives of its workers and the company strives to provide a high standard of work environment for its employees through training and working conditions
<b>Future Generations</b>	The company's focus on environmental sustainability is manifest in its product, production process and distribution process.

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<sup>1</sup> The COW-F Model was developed by Michael Fairbanks. It first appeared in *The Natural Advantage of Nations*, Hargroves and Smith, 2005.