



## Case Study: Laboratorios Union, Dominican Republic

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Founded in 1978 by Rafael Camilo in his home with his spouse and one employee, Laboratorios Union now produces over 100 pharmaceutical products, over 95% of which are marketed under the company's own brand. The company competes with larger international brands based on its reputation for quality and affordability in a highly competitive, fragmented market. The company has a strong reputation amongst the Dominican community, both at home and in the US, where there is a large Dominican population.

### **Business Challenge**

Presented with an opportunity to expand operations with the purchase of a larger facility, the company now operates with significant spare capacity and has limited opportunity to grow sales in its core product lines due to the fiercely competitive nature of the pharmaceutical market. This competition has only intensified in recent years with the introduction of CAFTA and the incursion of Chinese and Indian products into the Dominican market. There are approximately 15,000 pharmaceutical products in the market and the largest pharmacy in the country represents no more than 1-3% of total sales with only 27 branches. Due to the small size of each individual pharmacy, end customers are constrained in their ability to hold multiple SKUs and high inventories both by capital and space constraints.

### **Analysis of Alternatives**

*Expand into Cosmetics Products* – Facing the highly competitive pharmaceutical market, the company has identified the opportunity to leverage its existing expertise and capacity to develop a haircare brand uniquely suited to the needs of the company's Dominican clientele. The market for hair care products in the Dominican Republic is large, with most women visiting hair salons multiple times per week. This sector also is highly competitive, however, particularly in the retail market and the company's existing sales, marketing and distribution capabilities would not be able to be leveraged.

*Integrate with the Supply Chain* – The company is exposed to the prices, both through the function of a world price of various commodities and also in terms of exchange rate risk, of the raw materials required to manufacture its products and in order to mitigate this exposure, it could purchase provides of these raw materials to ensue continuity of supply. Most of the critical inputs that present this problem, however, are located abroad and the manufacture of these products is outside the realm of existing management's expertise.

*Downstream Integration into Distribution* – The company faces extremely high marketing and distribution costs for its pharmaceutical products in this highly competitive market. In order to ensure the best shelf space in pharmacies, it must cultivate strong relationships with distributors and hope the distributors are able to convince end customers to recommend the product and position it prominently. In order to better control the distribution of product, therefore, the company could establish its own distribution company, which would require substantial capital resources and the acquisition of additional management expertise.

### **Action Taken**

The company chose to launch a cosmetics line, focused on haircare products, distributed solely through beauty salons, because the company did not have the distributor relationships necessary to enter the mass market. Given the competitive nature of the market in the Dominican Republic, however, the company has pivoted its strategy in this product to reposition the products for export into the US market, where cosmetics specifically created for Dominicans is not as saturated. At the same time, the company is identifying distributors for some of its most popular pharmaceutical products that has a loyal following amongst the Dominican diaspora who buy in bulk when at home.

In order to mitigate the pricing and availability risks of critical inputs to production, the company chose to buy these inputs in greater bulk and obtain better pricing. The company used its spare factory capacity to store the excess product and also began onward sales of excess product to other manufacturers. Thus, it has become a mini-distributor of raw inputs.

To improve distribution, the company has made investments in two key distributors for its product in an effort to improve its cost structure while minimizing the overall capital investment required.

### **Results**

The diversification into cosmetics has impacted the company's financial results although the new strategy of export-led growth has improved the outlook for the future. In addition, the company is a leader in an export-focused cosmetics cluster that is using its combined larger size to negotiate distribution relationships in the US market.

The investments in distribution have led to significant cost savings that boosted profitability 23%. In addition, the company recently generated 5% of its overall revenues through the onward sale of raw materials obtained at bulk rates. Finally, the company is increasingly seeking to utilize its spare capacity by manufacturing third party brands in its factory.

Despite investments in new facilities, new equipment, downstream and upstream expansion and diversification into new product lines, the company has been able to maintain low levels of debt, financed by the company's founder on attractive terms. Thus, the company has a stable financial outlook at the moment and should key distributors for the export market be identified and quickly brought on board, the company will be able to utilize its excess capacity to drive significant growth.

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 Laboratorios Union.

**Laboratorios Union** and the COW-F Framework:

<b>Stakeholder Community</b>	<b>Current Value Offering</b>
<b>Customers</b>	The company manufactures quality pharmaceutical and cosmetic products uniquely suited to the Dominican market, both at home and abroad and thus fills a customer need.
<b>Owners</b>	The four children of the founder have significantly grown the company introducing new product lines, integrating through the supply chain, increasing capacity for growth and formalizing professional development programs to ensure the long-term survival of the business for the next generation.
<b>Workers</b>	The company offers professional development opportunities for its staff as well as formal training, on-the-job training and other significant benefits
<b>Future Generations</b>	The company's products support the health and wellbeing of the community and the company has participated in relief efforts through donations of its pharmaceuticals, particularly in neighboring Haiti.

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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.