CASE: UNIQUE - YANBAL (A) (*)

It had been a few hours since the Executive Committee meeting had finished and Fernando Belmont, founder and President of Unique – Yanbal was still thinking about the points which had been discussed. Would it be possible to continue to live up to the company´s vision of "Being the most prestigious and competitive cosmetics company in Latin America, based on the principal of: *Prosperidad para todos (Prosperity for Everyone)*"?

It was 1999 and Unique – Yanbal was a successful cosmetics company, with an important standing in several Latin American countries, but given the new world wide tendencies- mainly globalization-, to which these countries were not immune, the company became more preoccupied with new ways to deal with the future of things to come, especially considering that the opening of borders and decreasing customs tariffs would make the market more attractive to incoming important multinational companies.

Borders were opening and the consumer was being bombarded by images of foreign products, fashions and cable television. The internet was becoming more popular. The world was growing smaller and distances becoming shorter, and it became increasingly difficult to compete with the industry's cosmetics giants. The competition demanded the manufacturing of a better quality product, with high standards and in larger volumes in order to reach the economies of scale necessary to survive, besides the need to maintain consistency of products in all markets.

Unique – Yanbal had grown in the last years. It had its own manufacturing plants in Peru, Colombia and Ecuador, and in addition to these countries, it also sold its products in Mexico and Bolivia. Nevertheless, this was not enough.

Janine Belmont, Fernando's daughter, who was middle aged and had several years of experience in the business, was General Manager for Peru and she knew that it was time to make certain decisions which would be vital for the growth of the company, as well as for its survival. She said:

"The market is changing, tastes are changing quickly and foreign competitors are using new distribution channels and different sales strategies , which forces us to be more cost efficient and more flexible so that we can react quickly".

(*)*August 2000 – Rev. november 2002 – Published by the Universidad de Piura.*
Sergio Cuneo L., PAD business school Executive MBA student, prepared this case with assistance from Operations Manager Consuelo Guzmán F. of Unique Peru, under the supervision of Professor Jorge Pancorvo C. of PAD, business school of the Universidad de Piura. This case has been prepared as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Until then they had accomplished the mission that they had set out for themselves: “To raise the standards for all Latin American women, offering them a high quality product, personalized service and an excellent opportunity for earning income”.

The Andean Pact, aside from the obstacles it had faced through its history, was proving its worth in regard to the lowering of tariff items. Wasn’t it time to change strategies and redirect the company’s focus of operations from local to regional? What were the advantages to be gained by streamlining manufacturing in search of economies of scale? Also, what should be taken into consideration with regards to the supply chain under a new approach, and what would be the consequences towards other areas of the company?

A bit of History:

Fernando’s father had been closely acquainted with the pharmaceutical business in Lima[1], owning the well known domestic chain Botica Francesa (French Drugstore), which allowed Fernando’s involvement with this business from an early age.

After finishing his college education in the United States, he was an intern at the Helena Rubinstein cosmetics company, where he had the opportunity to work in most areas of the company and learn the secrets of the business. Fernando clearly remembers an interview with Mrs. Rubinstein in which she said to him, “This business has a thousand details. If you handle well about nine hundred of them, you’ll be successful”.

Upon his return to Peru he proposed to his brothers his idea to start their own cosmetics company. At the time the customs tariffs for these products in Peru were very high, which led to end users’ high sales price. They obtained authorization from well known international companies to locally bottle and package their products, subject to payment of royalties.

Sales grew. Nevertheless, their profit margin was not proportional to the effort taken, seeing as the royalties took a large part of the profit. So they decided to start their own brand. That was how Yanbal was born in 1967, which was named after Fernando’s daughter, JANine BELmont.

It began as an almost totally outsourced enterprise hiring externally its research and development (R&D), manufacturing, storage and distribution operations. The company only handled the actual sales activities. It was at this time that the company decided to leave the traditional distribution channel through drugstores and pharmacies and create a horizontal sales force made up of beauty consultants who directly attended the customer in a “door to door” basis.

During the peruvian dictatorship of General Velasco on the 1970’s, Fernando Belmont traveled to Argentina to begin the international expansion of the company, while his brother Eduardo remained in Peru with the business. The experience in Argentina was not an economic success and had to be closed down. But the endeavor was beneficial according to Fernando, who in his own words: “It forced me to have a better knowledge and understanding of how to develop a business outside Peru”.

At the end of the decade he returned to Peru and decided with his brother that they would separate the organization, and since Eduardo had developed the company inside

[1] Lima is the capital of Peru, with a current population of 8 million people. Peru, as a whole, has approx. 24 million people, with almost 50 % of the population within poverty level.

Peru he took over the operations inside the country and left Fernando with the opportunity to develop Yanbal internationally. Subsequently, Fernando created Unique to continue to be a competitor inside Peru.

The strengthening of the Andean Pact encouraged him to venture into the markets of Ecuador and Colombia, where he sets up organizations similar to the Peruvian enterprise, taking advantage of the experience achieved in the commercial organization based in its vast sales force.

With the passing of the years sales increased and in 1991 the company decided to run its own warehousing operation, as well as the logistics for supplying raw materials. As the operation grew it began to encounter supply problems, mainly because the outsourced production could not meet deadlines due to the volumes required. This forced the company to make the important decision of opening their first manufacturing plant in Bogota, Colombia in 1993, this being their largest market – based on sales figures - at the time.

With the years the commercial operations grew, and new facilities were installed in Lima in 1994 and in Quito in 1995, all the while continuing to sell in Bolivia and Mexico. Each country with its own manufacturing facilities had its own business chain, with inbound logistics, manufacturing, outbound logistics, sales and marketing, and the support of planning, quality control and a network of warehouses.

For many Fernando Belmont was still the "engine" of the organization, always with Janine´s important back-up. In Fernando´s own words:

"I need to travel a lot and keep in touch with my employees. I like going into the restrooms, the dining room and see how the personnel feel. If they are doing well, to me it means that business is good at that location. It is tiring and uncomfortable to travel, but it is just an inseparable part of this business…"

Products:

Unique – Yanbal manufactures products for beauty care and health which can be grouped together in commercial families according to their use, or by production families, depending on the operations and planning processes involved in the manufacturing (see Exhibit 1). These families do not necessarily coincide. There are approximately some 500 products offered, with 120 color varieties.

Commercial Families	Description
Treatment	Products that provide preventive and corrective treatments for face and body
Makeup	Makeup products
Hygiene	Hair care and skin protection
Fragrances	Perfumes and colognes

These products are similar in the different countries, but when there are different vendors for each market, the final product is not completely standardized and there are slight differences, depending on the manufacturing country. This problem worried Gonzalo Ravago, Corporate Operations Manager:

"It is most critical for countries that are only marketers, because depending on the country that supplies them they will have products with the same presentation but with