

MAKING 2ND TIER MARKETS WORK FOR CONTRACEPTIVE SECURITY ICON – OCTOBER 2006

BACKGROUND

In 2004, the IPPF subsidiary company ICON, developed its Concept Paper: *Bridging the gap between supply and demand*, which explored the possibility of working with emerging generic manufacturers to deliver lower cost contraceptives to country markets through two separate channels: existing public segments with a view to reducing the procurement burden on public funds and, simultaneously by establishing a low price 2nd commercial segment, designed to draw existing public sector clients, who could, and given the choice may prefer, to fund the cost of their own contraceptive provision, thus further reducing the burden on public and subsidized social marketing programs.

During 2005 ICON, with support from UNFPA and IPPF undertook extensive research in seven countries to test the feasibility of this Total Market Approach, while at the same time worked with the Concept Foundation, UNFPA and others to explore the preparedness of developing country manufacturers to supply product of international quality for the initiative.

The findings indicate that the approach is feasible in relation to a number of country contraceptive markets around the world, those researched, and others sharing similar socio-economic conditions and commodity security challenges. The findings also noted the interest of national governments and other stakeholders and confirmed the possibility of access to high quality/low price contraceptive products from emerging generic manufacturing companies. In-country follow-up with national commodity security stakeholder has continued in 2006.

The presentation will update Coalition members of progress to operationalise the Total Market Initiative since the last meeting, and the complementary roles of other members, (directly and indirectly) in support of the approach. It will also identify some of the main issues and remaining challenges specifically related to further development of 2nd tier contraceptive markets.

SUMMARY OF PROGRESS

- The broad philosophy of adopting a Total Market Approach which underpins the work in progress is gradually being adopted by many organizations, interpreted and adapted to their specific institutional and program requirements. There is evidence to demonstrate this in relation to tender guidelines/calls for proposals and ongoing programs. At least one donor has adopted the approach during the planning phase for a proposed national contraceptive security intervention.
- Encouragingly, it also appears to be increasingly common practice to undertake market segmentation studies in order to establish the complexion of the current market structure during the planning phase of product supply and contraceptive marketing interventions to inform decision-making.
- Through the extensive activities undertaken by the Coalition Market Development Approaches (MDA) sub-group on generic manufacturers, it has been established that high quality/low cost and capable generic manufacturers in developing countries do exist, albeit currently in limited numbers.

CHALLENGES

The research has provided a number of positive indicators in support of the approach, and the early adoption of some of its elements are cause for optimism and already yielding benefits contributing to the urgent challenge of ensuring the adequate and cost effective provision of supplies. However, the current absence of a dedicated and properly monitored Total/Market/2nd tier program, may result in the approach either; never being fully utilized in terms of its potential benefit to contraceptive security and/or, that the risks and assumptions relating to the approach are not identified and considered at an early stage.

Secondly, there appears to be two distinct bodies of thought with regard the introduction of supplies and brands into contraceptive markets made by generic suppliers, and the possible role of the international Reproductive Health (RH) community in terms of assistance, which require further discussion.

1. **Free market intervention** - generic manufacturers as commercial entities, will invest in capability/quality improvements and product marketing as necessary in pursuit of their corporate objectives, providing competitive price advantages for the public sector and establishing their niche in commercial market segments based upon market forces.
2. **Assisted intervention** – generic manufacturers should be assisted to market with the support of the Reproductive Health community on a partnership basis, determined through mutually acceptable goals and objectives, which commercially satisfy manufacturers and provide a demonstrable commodity security benefit for Reproductive Health.

There are a range of different positions and a number of pluses and minuses to each of these options, but the key issues appear to be:

- How to avoid inadvertently supporting the development of a new monopoly for contraceptive supplies, able to eventually dictate prices using their business position/s.
- Ensuring the availability of low cost commercial products and creating an enabling environment for the development of 2nd tier market segments.
- Ensuring manufacturers are able to generate decent profits through guaranteed ongoing business and steady production volumes.

Finally, further research is required in order to better understand country markets for which 2nd tier marketing (as opposed to social marketing or public sector intervention) is applicable, and to what extent 2nd tier markets can work in low income environments. This can be achieved by enhancing the existing scoping activities being undertaken by PSI.

KEY FINDINGS

1. Elements of the Total Market approach are currently being incorporated into the work of RH organizations.
2. In many of the feasibility target countries, national government is interested in the concept of a combined public/2nd tier commodity security intervention
3. There are identified countries within which the 2nd tier marketing of contraceptives could prove successful.
4. There are a limited number of generic manufacturers based in developing countries able to offer lower priced/international quality products, and the number will likely increase

PROPOSED NEXT STEPS

1. To identify sufficient funding and undertake a limited number pilot in of Total Market programs, with comprehensive monitoring and evaluation mechanisms in place.
2. To continue with and enhance the Market Scoping exercise initiated by PSI
3. To develop an appropriate impact driven monitoring and evaluation mechanism, (assuming 1.) including comparative analysis to relevant similar interventions.¹
4. To appropriately assist in the development of additional generic manufacturers of supplies for sustainable contraceptive supply security.

¹ To compare pilot programs with concurrent similar initiatives, working with OECD manufacturers, and market performance of generic suppliers “own label” efforts.