

**Reproductive Health Supply Coalition
Market Development Approaches Subgroup**

**Creating a Country Typology for Market Development Approaches
January 2006**

Objective

Create a framework for matching market development approaches identified during subgroup activity 1 to country environments and specific needs

Activities

1. Determine key criteria for country classification
2. Define source of information / data to be used for criteria and identify potential gaps
3. Create a process for matching countries to market development approaches

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I. Quick review of existing literature

CMS

What influences the private provision of contraceptives?

Rodolfo Bulatao, February 2002

The paper reviews available evidence to identify factors that may promote or hinder greater commercial sector participation.

Key conclusions are:

- The actual and potential market (e.g. demand) must be sufficient to attract commercial providers – based on market size, number of women of reproductive age especially in urban area and prevalence levels.
- Distribution and promotion channels (i.e. supply) must be available at reasonable cost
Higher commercial sector share appears to be related to higher numbers and densities of retail outlets and a good infrastructure.
- Commercial providers must have a competitive advantage relative to other providers
Prices of public contraceptives are arguably the most important component of competition. Smaller differences between public and private sector prices are associated with greater private sector share – except where public services are of poor quality.
- Regulations and the business climate must not constitute barriers or pose excessive risk

The business climate may be more or less favourable to private enterprise, regulations may restrict sales of pharmaceuticals or contraceptives, prices may be controlled, advertising may be forbidden – all this may pose a risk for doing business in developing countries, that commercial sector providers are not ready to take.

- The provider must formulate and follow an appropriate business strategy
Providers must decide on product positioning, pricing and promotion and whether to sell high-price, upscale market or low-price, mass-market product. Niche marketing to wealthier consumers can be profitable but does not generate high market shares.

**Broadening commercial sector participation in reproductive health
The role of Public Sector Prices on markets for oral contraceptives
Karen G Fleischman Foreit, February 2002.**

This paper focuses on oral contraceptives and addresses whether the commercial sector would be capable of serving some of the users currently receiving their supplies from the public sector.

Some key conclusions are:

- Outside of South America, the market for OCs is dominated by donated or subsidized products through public outlets
- Experience from South America shows that introducing or promoting free products into an established commercial market induces users to abandon the commercial sector for these free products without increasing overall use (Brazil, Peru)
- Market segmentation analyses demonstrate that many users of public sources for OCs could afford to pay for a commercial brand in the commercial sector
- Most developing countries have at least an incipient commercial presence.

Various regression analyses conducted for this paper show that the presence of free oral contraceptives in public outlets is associated with lower commercial share of market, independent of the presence of subsidized social marketing products.

**The Sustainability Challenge
Identifying appropriate financing models for social marketing programs
Francoise Armand, October 2003**

This paper analyzes the conditions and trade-offs involved in common approaches to financial sustainability and provides a framework for identifying context-specific strategies.

Several strategies are reviewed to improve financial sustainability in social-marketing organizations:

- Achieving full cost-recovery
This depends on customers' ability and willingness to pay, and the volumes that can be achieved. The potential for cost-recovery may improve as a result of promotional activities that build value for products and increase people's willingness to pay for these products.

Programs with high levels of cost recovery tend to be found in middle-income countries with considerable market potential for health products. In contrast, programs

implemented in low-income countries are more likely to sell below costs. Low demand also limits the opportunities for economies of scale.

Countries with low levels of demand and low capita per income will have the lowest levels of cost-recovery.

Some trade-offs required by cost-recovery strategies are around access: if only commercial distribution networks are used, this might limit product distribution to urban areas; prices might also limit access for poorer customers.

- **Identifying income-generating activities**
In countries where family planning acceptance is low, organizations should focus on resource development rather than cost-recovery from users. This means identifying products or services that can generate high volumes and high margins to cross-subsidize other programs targeted at the poorest, either in the same class of products or in related areas (e.g. clinical services offered by some Latin American NGOs).
- **Improving program efficiency**
This refers to the optimization of the use of available resources and can be likened to maximizing return on investment.
The marketing mix can be optimized and each key element (pricing, promotion, distribution strategy) positioned to be more efficient. Targeted interventions are also more likely to produce greater impact.
- **Graduating programs from donor funding**
This refers to the ability of phasing out donor support when a brand has become self-sufficient and can be licensed to a local distributor. This approach is more likely to be successful in middle-income countries with substantial market potential for social marketing products, i.e. prevalence quite high and private sector distribution networks well developed – and favourable policy environment (ie public sector products are targeted at the poorest and make “room” for commercial approaches).

Framework for financial sustainability strategies:

Key factors identified along this study are:

- Market potential – which is linked to population size, overall demand and the private-sector share of the market
- Ability to pay
- Commercial presence
- Donor's funding

See matrix for context-specific strategies in Appendix 1

PSP-One

Private sector Wall chart

The PSP-One project recently published a Private sector Wall chart: the data reported are around socio-demographic, economic, health and policy indicators. It allows for a quick overview of a market conditions, income levels, current and potential demand, promotion and distribution channels, business regulations and source of supply by socio-economic status.

Analysis of 5 SOMARC countries post-graduation

Sohail Agha, Ma Do, Francoise Armand, October 2005

A recent study published by PSP-One analyzes the impact of the manufacturer's model in 4 countries after donor phase out.

It found out that the manufacturer's model implemented under the SOMARC program and financed by USAID in these 4 countries resulted in an increase of commercial sector share across all wealth quintiles, thanks to a combination of social marketing and lower priced products made available in private sector channels; but this progress was not sustained equally in all countries after donor phase out.

The factors that influenced the outcomes of the program were identified as

- significant demand for the method prior to the beginning of the program
- rapid commercial sector growth prior to the beginning of the program
- favourable policy environment during and after the program (ie public sector is not aggressively promoting usage of free products)
- commercial partner continues funding promotional activities

II. Key elements determining potential for financially sustainable products / brands

The financial sustainability of a market can be defined by its ability to generate a profit above the level required to cover all costs incurred with operating in the said market.

$$\text{Volume sold} * \text{Unit Price} \geq \text{All Direct and Indirect Costs}$$

Usually, a brand or product is considered sustainable if the proceed of its sales covers all direct costs plus a percentage of the indirect costs incurred by the entity selling this brand plus a margin that constitutes the profit.

This is a convention commonly used by private companies, since it is highly unusual for one brand or product to be able to cover for all the operating costs of a company or selling entity.

The financial sustainability of a company is in turn ensured by selling a combination of financially sustainable products and brands.

However, between fully subsidized (where the product is given away for free) and fully commercial (where the product generates a profit), there are various levels of cost-recovery that can be achieved for a product:

- Cost-recovery level 0: most of the direct and indirect costs are subsidized. If the product is sold rather than given away, the unit price is not enough to cover even the cost of commodities.
- Cost-recovery level 1: the revenue generated by the sale of the product covers for all costs of goods sold (ie commodity costs + transport + % of warehousing + testing and sampling). Other costs are subsidized.
- Cost-recovery level 2: the revenue generated by the sale of the product is enough to cover all direct costs (production, distribution, staff, and promotion). Other indirect costs are subsidized.
- Cost-recovery level 3: the revenue generated by the sale of the product is enough to cover all direct costs and a share of indirect costs (defined as a % of indirect costs).
- Cost-recovery level 4: the revenue generated by the sale of the product is enough to cover all direct costs, a share of indirect costs (defined as a % of indirect costs) and generate a margin (profit).

For reproductive health commodities, like any other product, volumes, prices and costs are driven by the country and the market's environment:

- volumes depend on the level of demand for the specific product
- prices depend on people's ability and willingness to pay
- costs depend on the country's infrastructure, regulations, and the company's business model and operations

A driver tree analysis is useful to identify the main drivers of volumes, prices and costs in a given market or country (see attached appendix).

III. Proposed approach

Criteria

The main criteria identified through this exercise and based on the review of previously existing literature are:

- users willingness to pay, that determine the level of price that is achievable for the product (because these data are not readily available, many people use ability to pay as proxy, which might actually give a pretty conservative view of the possible price range)
- population size and CPR level, that determine the potential market size for a product
- competitive environment, and in particular competition from subsidized products and distribution environment (weight and access to private sector distribution channels) that determine the potential market share for a product
- cost of doing business, which depends on the country's policy environment and on the type of entity selling the product (non-profit organization vs. social enterprise vs. local distributor vs. international pharmaceutical company)

Process

We propose to use Market Potential and Financial Potential as the 2 determining dimensions in the choice of MDAs.

Market Potential is a function of CPR levels, Population Size (WRA) and Competitive environment.

Financial Potential is a function of willingness to pay and the cost of doing business in a specific country.

We can start classifying countries along these criteria, but we'll have to define specific ranges (high / low).

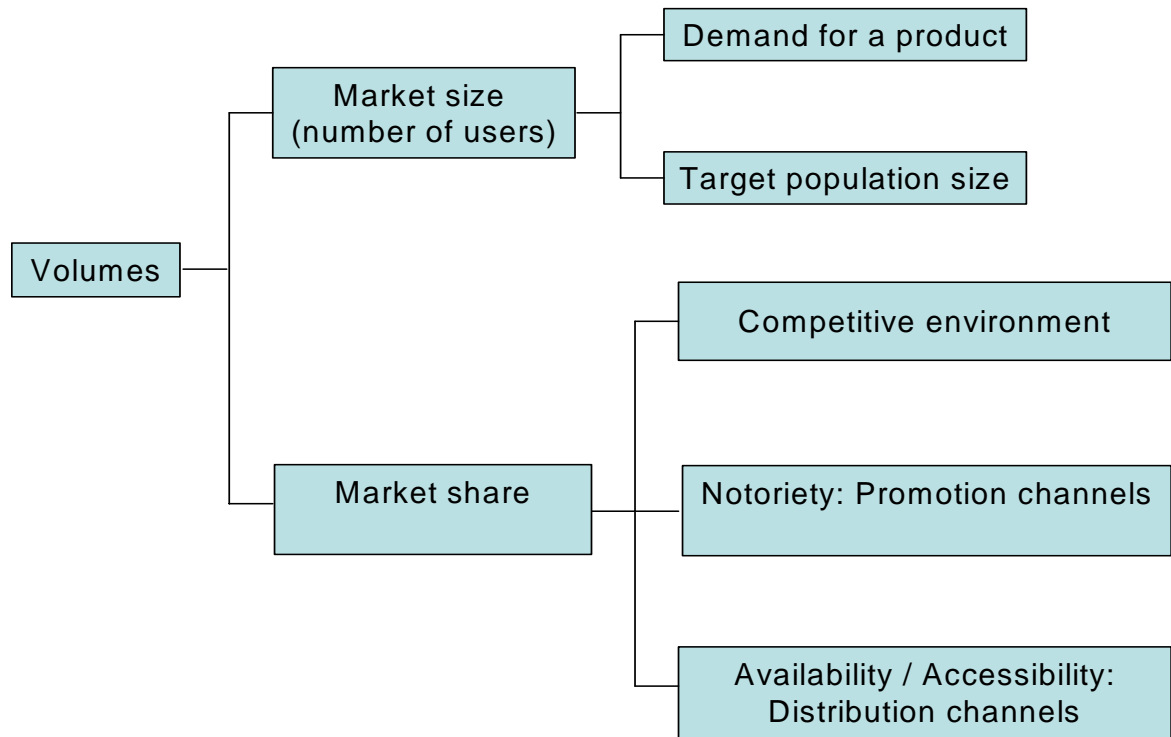
Beyond country level, we can also use these criteria to define MDA and type of interventions needed for various segments of the population: we will good segmentation studies that provide information on willingness to pay, size of each segment and cost of targeting interventions to specific segments.

Market Potential		
High	<p>Cost-recovery feasible at medium levels (1,2) and possibly 3 on a small scale. Need to work on increasing FP by creating value for the category and reducing costs</p>	<p>High level of cost-recovery and for-profit approaches very likely to succeed. Limited need for donor funding except to support specific and focused activities for vulnerable populations</p>
Low	<p>Cost-recovery difficult above CR 0. Need to work on increasing MP – i.e. increasing CPR levels and lowering public sector competition + increasing FP</p>	<p>Cost-recovery feasible at high-level (3) but on a small scale (niche strategy) Need to work on increasing MP - ie CPR and commercial sector weight</p>
	Low	High
		Financial Potential

Source of Data

- Data can be found for CPR levels, population size and competitive environment from DHS and population-based surveys
- Willingness to pay data would need to be collected
- The cost of doing business will be on a per-country basis
PSP-One wall chart can give indications of these but it would be preferable to collect data from offices on the ground

The Main Drivers of Profit - Volumes

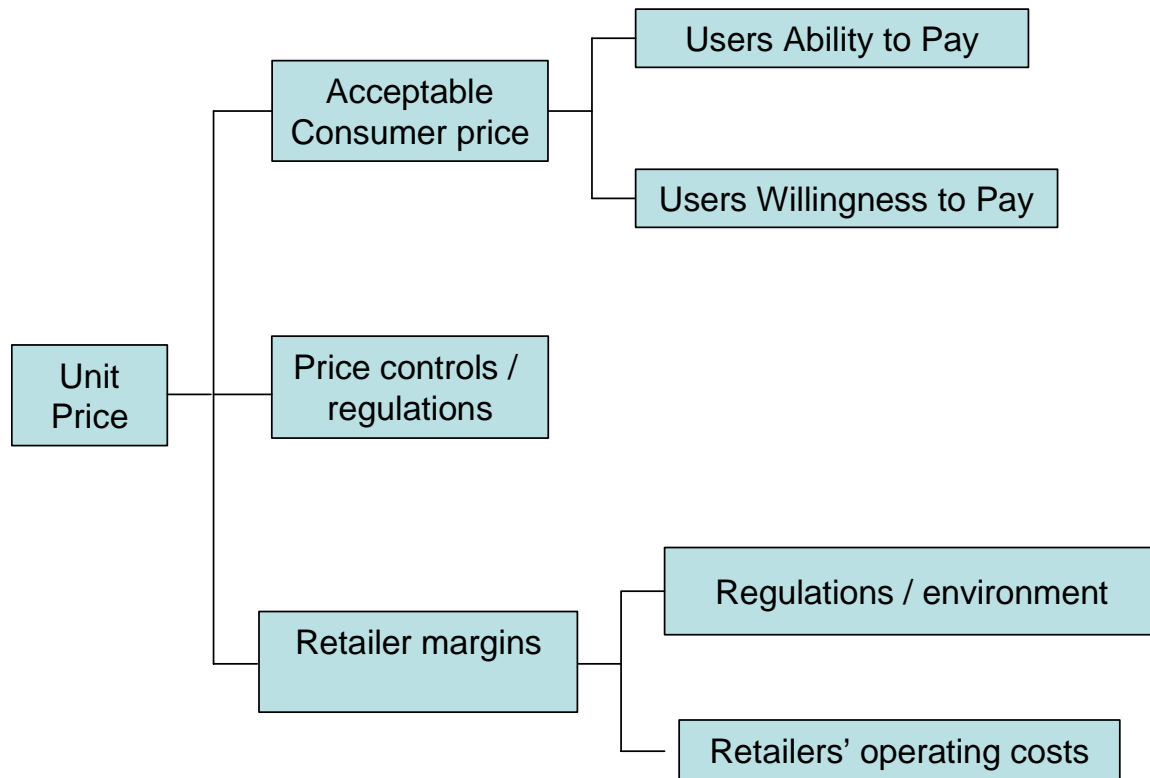


DRIVERS OF VOLUMES

- CPR level per product
- Number of WRA

- Competition from subsidized products (public sector and social marketing): prices, perceived quality, targeting of interventions, supply levels (are there many stock-outs?)
- Promotional methods allowed
- Regulations on distribution of ethical products
- Urbanization levels
- Current private sector usage

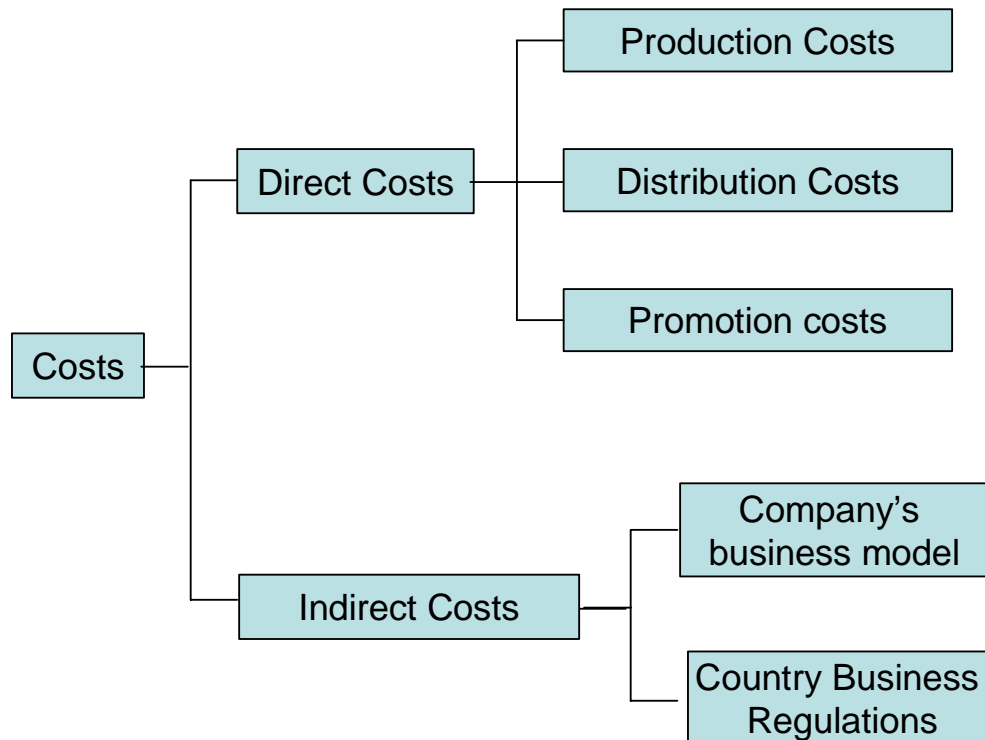
The Main Drivers of Profit - Price



DRIVERS OF PRICES

- Income levels
- Perceived quality / value of product
- Regulatory environment
- Retailer business models

The Main Drivers of Profit - Costs



DRIVERS OF COSTS

- Manufacturer + transport, etc
- Structure of distribution system (direct vs indirect)
- Quality of in-country infrastructure
- Quality and price of promotional channels available: efficiency and effectiveness, ability to target
- Level of promotional activity in market (“market noise”)

- Type of selling entity – NGO, SMO vs Local distributor vs International pharmaceutical company will have different levels of operating costs and different levels of required margins

- Private sector Policy Environment e.g. Cost of entry to market, taxes, cost of doing business in country