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MOVING TOWARD SUSTAINABILITY:
TRANSITION STRATEGIES FOR SOCIAL MARKETING PROGRAMS

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MOVING TOWARD SUSTAINABILITY:
TRANSITION STRATEGIES FOR SOCIAL MARKETING PROGRAMS

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ACRONYMS

AIMAS	L' Agence Ivoirienne pour le Marketing Social
APROPO	Apoyo a Programas de Población
Ashonplafa	Asociación Hondureña de Planificación de la Familia
BCC	Behavior change communication
CMS	Commercial Market Strategies
COGS	Cost of goods sold
DFID	Department for International Development
ECODEV	Ecoform Development
FEMAP	Federación Mexicana de Asociaciones Privadas
IPPF	International Planned Parenthood Federation
ITN	Insecticide-treated nets
IUD	Intrauterine device
KfW	Kreditanstaldt für Wiederaufbau
MDA	Market development approach
MEXFAM	Mexican Foundation for Family Planning
MOU	Memorandum of understanding
NGO	Nongovernmental organization
ORS	Oral rehydration salts
PASMO	Pan American Social Marketing Organization
PSI	Population Services International
PSP	Private Sector Program
PSP-*One*	Private Sector Partnerships-*One*
SFH	Society for Family Health
SMO	Social marketing organization
SMS	Social Marketing Solutions
SOMARC	Social Marketing for Change
STI	Sexually transmitted infection
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development

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EXECUTIVE SUMMARY

This paper provides donors, program developers, program managers, researchers, and others in the social marketing field with a practical approach to guide conceptual thinking and sustainable program design. While the models and strategies described can be applied to a variety of technical disciplines, this paper focuses on the application of social marketing principles to the sustainability of health programs, in particular to reproductive health and family planning projects. For donor agencies this paper offers practical suggestions for moving donor-dependent social marketing programs along the path to sustainability. While there is no one formula for accomplishing this goal, the paper suggests steps that will strengthen long-term viability and help ensure program success.

To complete this paper, the Private Sector Partnerships-*One* (PSP-*One*) project conducted key informant interviews with people involved in the implementation and evaluation of social marketing programs. Additional interviews were undertaken with manufacturers, former staff from the Commercial Market Strategies and Social Marketing for Change projects, and representatives from the United States Agency for International Development. In addition, PSP-*One* conducted a literature review and analyzed prior programs' experiences to highlight models, strategies, and examples that can be applied to facilitate sustainable social marketing programming.

The focal point of the paper is a new tool called the Sustainability Continuum for Social Marketing. This resource is intended to guide decisions about the four primary components of sustainability: technical sustainability (including the 4 Ps of marketing), financial sustainability, institutional sustainability, and market sustainability. The continuum includes indicators for measuring progress related to individual components of a social marketing program. Three phases of sustainability are defined—beginning, intermediate, and advanced—and the four sustainability components are defined within each phase. This structure highlights how social marketing programs and social marketing organizations (SMOs) change over time. The continuum also illustrates that an SMO might achieve sustainability in one area, such as technical sustainability, within a shorter timeframe than in another component, such as institutional sustainability. In fact, progress along the continuum is fluid and may include temporary setbacks as well as increases in sustainability.

Building on the issues and indicators defined in the continuum, a variety of strategies are described to assist social marketing programs in their decision making within each of the four sustainability components. Insights are shared in the form of trade-offs and lessons learned, and areas for further research are suggested. Specific strategies related to technical sustainability include building the capacity of SMOs to conduct international tenders and source products independently, using cross-subsidy pricing strategies, developing partnerships to sustain communication efforts, and moving to commercial distribution models. Examples of financial sustainability strategies include reducing operational costs and introducing product-based commercial accounting procedures. For the institutional sustainability dimension, ideas include establishing an organization with an independent legal status, strong governance, and accountability measures. Finally, strengthening the ability of an SMO to continuously adapt to changing economic, regulatory, and social conditions is one of the most useful strategies related to market sustainability. For an overview of the issues this paper raises, please see Section 5: Key Findings, Tradeoffs, and Directions for the Future.

To maximize the utility and application of the information in this paper, a set of products is offered: this paper (including the continuum tool and five detailed case studies from Africa, Latin America, and Eastern Europe); a summary of sustainability strategies; and a sustainability checklist. To understand all aspects of the sustainability discussion, reading the paper and case studies will be the most useful approach. For managers wishing to apply specific concepts and strategies, the continuum tool, strategy summary, and checklist will facilitate this process.

A suggested next step for donors and program managers is to field-test these materials with ongoing social marketing programs to assess the utility of the tools and to determine the impact of their application. Feedback from readers and users is encouraged. To submit comments please contact Gael O'Sullivan (gael_o'sullivan@abtassoc.com) or Jeff Barnes (jeffrey_barnes@abtassoc.com).

1. INTRODUCTION

As donor resources shift and priorities change, sustainability has become an important issue for social marketing programs. There is a need for conceptual tools to assist both donors and program implementers to identify priorities for funding and strategies for long-term viability. This paper offers a framework to define the indicators, assessment tools, and strategies that can move programs toward sustainability. For donor agencies this paper provides practical suggestions to move donor-dependent social marketing programs along the path to sustainability. Although there is no one formula for accomplishing this goal, the paper suggests specific steps that will strengthen long-term viability and help ensure program success.

Even if all social marketing programs will not ultimately attain full sustainability, each of them may assess and document their progress toward sustainability in a variety of areas, including technical, financial, institutional, and overall market sustainability. The objective of sustainability is also balanced against objectives of equity and increasing a project's health impact among low-income groups. An underlying assumption of this paper, however, is that the comparative advantage of product social marketing is not in serving the poorest people, but rather in leveraging commercial models to provide health in a cost-efficient and potentially sustainable fashion to low-income groups in developing countries. This paper addresses the need for a careful analysis of the strategies required to realize that goal. Over the long term, use of the conceptual framework will increase awareness of the multiple variables associated with sustainability, facilitate more effective use of donor resources, and allow programs to reduce dependency on external funding. There are many documented examples of programs that have achieved sustainability; however, what is less well documented are the steps and strategic decisions that programs make to achieve sustainability.

1.1 THE PURPOSE OF THIS PAPER

This paper provides donors, program developers, program managers, researchers, and others in the social marketing field with a practical approach to guide conceptual thinking and sustainable program design. While the models and strategies described can be applied to a variety of technical disciplines, this paper focuses on the application of social marketing principles to the sustainability of health programs, in particular reproductive health and family planning programs. In the interest of developing tools to guide analysis and decision-making, a Sustainability Continuum for Social Marketing is offered that includes indicators for measuring progress related to the sustainability of various components of a social marketing program. Five detailed case studies are included in the annexes to illustrate how programs have applied technical, institutional, financial, and market sustainability strategies to maximize long-term viability and impact.

1.2 METHODOLOGY

To complete this paper, the Private Sector Partnerships-*One* (PSP-*One*) project conducted key informant interviews with people involved in the implementation and evaluation of social marketing programs. Additional interviews were undertaken with manufacturers, former staff from the Commercial Market Strategies (CMS) and Social Marketing for Change (SOMARC) projects, and representatives from the

United States Agency for International Development (USAID). The interviews yielded valuable insights and lessons learned.

To guide the analysis underpinning this paper, PSP-*One* reviewed prior programs' experiences and technical literature to highlight models, strategies, and examples that can facilitate movement along the Sustainability Continuum for Social Marketing. The literature review revealed a limited number of studies that provide social marketing impact data and sustainability outcomes beyond the individual program level.

2. OVERVIEW

The literature on social marketing contains ample references to business, marketing, and health terminology. Within the social marketing field, however, a term often has multiple meanings depending on the funding source, implementing partners, and type of academic and professional training the partners have had. The following definitions are provided to clarify the meaning of key terms within the context of this paper.

2.1 TERMINOLOGY

2.1.1 SOCIAL MARKETING

"Social marketing is the use of marketing principles and techniques to influence a target audience to voluntarily accept, reject, modify, or abandon a behavior for the benefit of individuals, groups, or society as a whole" (Kotler, Roberto, and Lee 2002). In this paper, experiences are highlighted from social marketing programs that use the principles of commercial marketing (based on the 4 Ps of product, price, promotion, and place) to sell health products to target groups in developing countries.

2.1.2 SOCIAL MARKETING ORGANIZATION

A social marketing organization (SMO) is any entity, formal or informal, responsible for the management and implementation of promotional activities that achieve social goals. This term encompasses social marketing activities managed under a project status without formal legal registration and those managed by local or international non-profit associations or trusts, commercial companies, consulting firms, and government agencies. While some SMOs use institutional structures that are more sustainable than others, any SMO, including commercial entities, can adopt sustainability strategies.

2.1.3 SUSTAINABILITY

There are many definitions for "sustainability" in the literature about social marketing programs. The concepts of cost recovery, self-sufficiency, program efficiency, cost effectiveness, and other related terms often are used to describe the ability of a social marketing program to continue operations with little to no outside support. Most references describe the financial aspects of social marketing programs, although more recent literature cites examples of "programmatic sustainability" (using the 4 Ps of marketing to reach maximum efficiency) along with "institutional sustainability" (Armand 2003b).

In this paper the term "sustainability" is defined as the ability of a social marketing program over time to manage its technical, financial, institutional, and market-related activities to maximize efficiency, self-financing, and self-governance without reliance on external support.

This view parallels the sustainability definition a major USAID-funded contraceptive social marketing program offered in 1992: "Sustainability is defined as the organizational, technical and financial capacity of programs to continue beyond [the program funding] period" (Cisek and Maher 1992). Self-sufficiency, however, “relate[s] to the ability of a project to cover the costs of products and operations, and have adequate resources to continue investment in the program, and still achieve an adequate level of profitability without donor financing” (ibid).

2.1.4 COMMUNICATION TERMS

The process of promoting products, services, and behaviors to address public health challenges in international development can be described in many different ways. Practitioners who have been trained in a commercial setting tend to use the term “marketing communication” to describe activities designed to promote awareness, trial, and use of social marketing products or services. Some donor-funded projects prefer to use terms such as “demand generation,” “strategic communication,” “strategic behavioral communication,” or “behavior change interventions.”

Within the past few years, the term “behavior change communication” (BCC) has emerged as a broad construct that can either refer to product-specific marketing strategies or to outreach activities aimed at motivating hard-to-reach target groups, such as commercial sex workers, to adopt risk reduction behaviors that may not involve product use. This form of communication is sometimes referred to as “generic communication.” The behavior change function in a product-based social marketing program, therefore, might consist of a consumer’s movement along the “steps to behavior change” continuum from being unaware of the product, to being aware of it, then trying the product, continuously using it, and eventually advocating its use to others (Piotrow et al. 1997). The use of BCC with hard-to-reach audience segments tends to promote general information about behavioral risks and how they might be reduced.

Both “marketing communication” and “BCC” are used in this paper and their applications are described in each instance. The term “generic communication” also is included; it refers to communication intended to promote non-product behaviors or to promote a class of products rather than a specific brand.

2.2 MODELS

Social marketing models typically have been defined according to the type of organization implementing the program. From the *Fourth Generation Social Marketing* paper the SOMARC project produced in 1992 to the CMS paper *Social Marketing Models for Product-Based Reproductive Health Programs* issued in 2003, most of the discussion about models has focused on variations of the nongovernmental organization (NGO) and manufacturer’s models, with hybrid models emerging in a number of countries.

In the manufacturer’s model, commercial contraceptive brands are selected with the expectation that they will remain commercially available after donor funding has ended. This model emphasizes self-sufficiency through cost-recovery by partnering with a manufacturer or distributor willing to market a product at a price that, while lower than the prices of other commercial brands, makes it profitable for the commercial partner to continue distributing and marketing the product after donor funding ends (Armand 2003a and Agha, Do, and Armand 2005).

By contrast, the NGO model focuses on population groups that cannot afford to pay commercially viable prices; organizations using this model market low-priced products to low-income groups relying on a donor to subsidize the cost. Therefore these organizations remain donor-dependent (Armand 2003a and Agha, Do, and Armand 2005).

Recently the terms "total-market approach" and "market-development approach" (MDA) have emerged to describe a blending of design elements from earlier models. Population Services International (PSI) and the Department for International Development (DFID) in particular have published descriptions of these approaches (Population Services International 2006 and Gardiner, Schwanenflugel, and Grace 2006). In addition, the Academy for Educational Development has branded an approach called "full market impact" anchored around five factors: supply, access, affordability, demand and appropriate use, and equity and sustainability (Academy for Educational Development 2005). In this evolved version of the manufacturer's model, donor funds are invested to support commercial brands as opposed to social marketing brands. Key elements include joint risk, joint investment, and the creation of a competitive market to improve distribution and quality while reducing price. Products are not necessarily less expensive, but prices do drop with competition. Central to this model is the notion that subsidies are provided to high-risk consumers in a way that supports the commercial sector.

The most relevant concepts linking these models to the Sustainability Continuum for Social Marketing and to the strategies described in this paper are the notions of change over time and adaptation to market realities in the public and private sectors. Whatever model and terminology are used, it is important to note that social marketing programs are organic, grow and change over time, operate in a dynamic environment, and likely will benefit from different design elements at various stages of program growth. It is also important to recognize the inherent tension between the desire to demonstrate quick results and the need to plan for long-term viability. These competing interests can hinder social marketing efforts and may be heightened by the donor system, as overseas staff rotate every few years and are under pressure to produce program results within limited timeframes.

2.3 LITERATURE REVIEW

In developing the Sustainability Continuum for Social Marketing, a literature review revealed a small number of publications addressing the issues of sustainability, new approaches, and hybrid models. These publications were seminal in the development of the continuum and can be useful starting points and references for other social marketing programs.

The crosscutting publications reviewed include *When Donor Support Ends: The Fate of Social Marketing Products and the Markets They Help Create* (Agha, Do, and Armand 2005), *The Sustainability Challenge: Identifying Appropriate Financing Models for Social Marketing Programs* (Armand 2003b), *The Performance of Social Marketing Interventions in Developing Countries: A Systematic Review* (Chapman, Astatke, and Ashburn 2005), and *Market Development Approaches Scoping Report* (Gardiner, Schwanenflugel, and Grace 2006).

When Donor Support Ends: The Fate of Social Marketing Products and the Markets They Help Create summarizes multi-country experiences in achieving sustainability using the manufacturer's model in four middle-income countries: Morocco, the Dominican Republic, Peru, and Turkey. Sustainability, defined in the paper as, "continuing [contraceptive] availability after the withdrawal of donor support," differs from the types of sustainability described in the continuum. Continued product availability after the withdrawal of donor support, however, is a critical part of achieving financial sustainability. Although many recent social marketing programs use a hybrid rather than a traditional model, the paper found that contraceptive social marketing interventions implemented under the manufacturer's model can contribute to a higher commercial-sector share of a method among lower- and middle-income women, even after donor support is withdrawn. For SMOs in middle-income countries with developed commercial infrastructure that may experience graduation or the end of donor support, the lessons and conclusions learned from *When Donor Support Ends* may be useful.

A multiplicity of contexts and program designs exist in social marketing, as the examples and case studies in this paper illustrate. Thus it can be challenging for practitioners and donors to identify the appropriate financial sustainability strategy, given various program goals and objectives. *The Sustainability Challenge: Identifying Appropriate Financing Models for Social Marketing Programs* builds on field experience and literature to suggest strategies that may improve financial sustainability, taking into account local context, desired program outcomes, and technical capacity, while examining conditions and appropriate contexts for each strategy, as well as potential trade-offs. *The Sustainability Challenge* defines and identifies four strategies for achieving increased financial sustainability—achieving full cost recovery, diversifying income sources, improving program efficiency, and graduating programs from donor funding. The paper also contains a framework for context-specific strategies and opportunities for increasing financial sustainability over time. Programs seeking a framework to facilitate identifying an appropriate model may benefit from the paper.

The Performance of Social Marketing Interventions in Developing Countries: A Systematic Review provides an overview of the evidence base of social marketing interventions and identifies gaps in research and design through an analysis of 65 articles. Articles were categorized into areas of evidence (although not mutually exclusive ones). The paper examines the impact of social marketing programs on health, risk-reducing behavior, product and service use, ability, and motivation in relation to cost effectiveness and equity, while considering the halo and substitution effects. In the context of this paper, the halo or "positive substitution" effect occurs when users switch from public-sector products to social marketing products, which increases market efficiency. The substitution or "negative substitution" effect, however, occurs when consumers trade down from the fully commercial brand to the cheaper, subsidized brand (Chapman, Astatke, and Ashburn 2005). The review found that evidence of social marketing's effectiveness exists at different levels for interventions regarding HIV/AIDS, maternal and child health, and family planning and reproductive health. Efforts to link changes in behavior to changes in health status for malaria, however, have just begun.

The recently published study, *Market Development Approaches Scoping Report*, focuses on the supply chain and is a thorough overview of the MDA to social marketing. It identifies examples and lessons learned in responding to contraceptive security concerns. MDAs by definition have the end goal of improving financial sustainability and are interventions that will lead to improved financial sustainability for a particular market. This paper looks at the impact of some newer strategies, such as health insurance, risk pooling, equity funds, generic medicines and contraceptives, and vouchers in achieving outcomes. Additionally, *Market Development Approaches* also examines the characteristics of good commercial partners, implementers, products, prices, and branding. Building on *The Sustainability Challenge*, the paper analyzes the ability of MDAs to achieve cost-effective results through cost recovery.

3. THE SUSTAINABILITY CONTINUUM FOR SOCIAL MARKETING

SUSTAINABILITY CONTINUUM FOR SOCIAL MARKETING

The continuum was developed to illustrate the components of sustainability for social marketing programs as well as to develop parameters for assessing the degree of sustainability of these programs. The phases and indicators in this continuum are applicable to the social marketing of varying product types, such as family planning, maternal and child health, and insecticide-treated nets (ITNs). In this continuum there are four major components of sustainability: technical, financial, institutional, and market (described in the following section). Given the range of social marketing programs and the various levels of sustainability in individual programs, each component is divided into three categories—beginning, intermediate, and advanced—with descriptions of the most common types of programs. Each section of the continuum includes illustrative indicators; these indicators are described in more detail in Section 4: Sustainability Strategies.

Given the variability inherent in each social marketing program, it is difficult to estimate timeframes for each phase of this continuum. In addition, the pace at which a program advances depends partly on external factors, such as the dynamic nature of the market. For example, a program might reach financial sustainability quickly, while needing more time to reach institutional sustainability. In general, illustrative timeframe indicators for the beginning category might range from three to five years, while indicators at the advanced end of the continuum might take 15 to 20 years to reach. The continuum and related indicators are offered to help donors and program managers plan and set benchmarks to measure progress; the exact way to do so will depend on the context of each individual social marketing program.

CONTINUUM COMPONENTS

Technical sustainability: Refers to the ability of the organization to fulfill the core mission of social marketing. Within this continuum it is organized along the 4 Ps of marketing: product, price, promotion, and place (distribution). The SMO may not need to have all of these skills in-house, but it should be able to draw on technical experts locally or regionally as needed.

Financial sustainability: Refers to the degree to which the costs of the social marketing program (including overhead) are covered, typically through revenues generated by the sale of products. Programs in countries with poorly developed markets and low product usage may have low levels of financial sustainability; likewise programs in countries with more developed markets and higher levels of use will have higher levels of financial sustainability. Regardless of where programs are located and what their sustainability goals are, program managers should be familiar with financial sustainability indicators.

Organizational sustainability: Refers to the management skills and infrastructure required for the SMO to operate efficiently over time. There are many types of SMOs implementing programs, for example local and international NGOs, commercial manufacturers and distributors, and internationally funded projects. The sustainability of these organizations varies depending upon their mission, their portfolio, whether they are local or international, and whether they are private or commercial. "Inherent in the ability of an organization to be financially independent is the capability to maintain a stable structure, to allocate resources efficiently, and to respond to or even generate demand for services" (Levine and Bennett 1995).

Market sustainability: Refers to the maturity of the marketplace in which consumer demand for a class of products is established and suppliers increasingly offer new product variants to appeal to refined consumer tastes. Also implicit in the concept of market sustainability is the way a market is segmented through the efforts of public-, private-, and commercial-sector actors and the ability of social marketing programs to adapt and innovate to respond to market changes over time.

3.1 SUSTAINABILITY CONTINUUM FOR SOCIAL MARKETING

Levels	Beginning	Intermediate	Advanced
Components of Sustainability (Note: There are no prescribed timeframes assigned)			
Technical Sustainability			
PRODUCT	An international organization or a local government donates the product; procurement is usually not the responsibility of the SMO. Indicators: ▸ Value of donated commodities ▸ Value of commercially procured commodities ▸ Ratio of donated to commercially procured product (1:0)	The SMO procures and imports some products; international or government sources donate others. Indicators: ▸ Value of donated commodities ▸ Value of commercially procured commodities ▸ Ratio of donated to commercially procured product (1:1)	The SMO procures all products locally or internationally; oftentimes commodity costs are lower than those obtained through donations because of donor restrictions on procurement. Indicators: ▸ Value of donated commodities ▸ Value of commercially procured commodities ▸ Ratio of donated to commercially procured product (0:1)
PRICE	Highly subsidized: Products sell at prices below the cost of goods sold (COGS), which includes commodity, freight, insurance, importation, and packaging costs. Indicators: ▸ Percentage of unit COGS to trade price (25 percent) ▸ Percentage of recommended retail price to target group's willingness-to-pay price (70–90 percent)	Partially subsidized: Products sell at a price that recovers the full COGS as well as some portion of the SMO's indirect costs. SMOs may have some brands that are partially subsidized as well as others that operate at full cost-recovery. Indicators: ▸ Percentage of unit COGS to trade price (60–90 percent) ▸ Percentage of recommended retail price to target group's willingness-to-pay price (70–90 percent)	Full cost-recovery: Products sell at a price that covers the full COGS, covers the SMO's indirect costs, and generates revenue. SMOs may have some products that are at break-even (full cost-recovery) as well as others with premium prices (to subsidize other elements of the program). Indicators: ▸ Percentage of unit COGS to trade price (100–120 percent) ▸ Percentage of recommended retail price to target group's willingness-to-pay pay price (80–100 percent)

Levels	Beginning	Intermediate	Advanced
Components of Sustainability (Note: There are no prescribed timeframes assigned)			
PROMOTION/ COMMUNICATION	Brand-specific promotion and generic BCC are used to build demand for social marketing products and appropriate behaviors. Generic BCC activities are targeted toward large segments of the population. Target audiences generally have low knowledge levels and often significant misinformation exists regarding products and behavior. Only small segments of the population demonstrate the accepted behavior or are using the products. Indicators: ▸ Cost of brand-specific marketing and promotion ▸ Cost of generic BCC interventions ▸ Total sales revenues ▸ Percentage of brand-specific advertising investment to sales revenues (400–500 percent) ▸ Ratio of brand-specific to generic BCC (lower)	Brand-specific promotion and generic BCC are used to build demand for social marketing products and appropriate behaviors. Generic BCC activities are targeted toward specific population segments, with commercial players advertising more to higher-income segments and SMOs focusing more on lower-income and vulnerable groups. Target audiences generally have moderate knowledge, although often some misinformation exists regarding products and behavior. More of the population demonstrates the accepted behavior or is using the products. Indicators: ▸ Cost of brand-specific marketing and promotion ▸ Cost of generic BCC interventions ▸ Total sales revenues ▸ Percentage of brand-specific advertising investment to sales revenues (50–100 percent) ▸ Ratio of brand-specific to generic BCC	Brand-specific promotion is targeted toward the general population to sustain market levels. BCC is used to address hard-to-reach target audiences, such as youth, underserved, and high-risk audiences. These generic behavior-change campaigns may be supported periodically through donor interventions. Commercial organizations are making the largest investments in mass-media advertising of the branded products. Target audiences generally have high knowledge levels. While rumors and misconceptions still may be an issue, a significant portion of the population demonstrates the accepted behavior or is using the product. Indicators: ▸ Cost of brand-specific marketing and promotion ▸ Cost of generic BCC interventions ▸ Total sales revenues ▸ Percentage of brand-specific advertising investment to sales revenues (20–40 percent) ▸ Ratio of brand-specific to generic BCC (higher)
DISTRIBUTION/ DELIVERY CHANNEL	SMO acts as its own distributor and wholesaler, taking the products from importation to retail level using its logistical system and sales staff. Indicators: ▸ Percentage of product distributed by own sales force versus external distributors (75 percent) ▸ Cost per unit distributed, for example $0.20–0.40 per condom sold depending on scale and conditions	SMO uses a mix of commercial distributors and local sales and distribution networks to expand distribution or sell to outlets beyond the reach of the commercial trade. Indicators: ▸ Percentage of product distributed by own sales force versus external distributors (50 percent) ▸ Cost per unit distributed, for example $0.10–0.20 per condom sold depending on scale and conditions	SMO sells to a small number of distributors who sell through entirely commercial channels. The SMO has no sales staff. Indicators: ▸ Percentage of product distributed by own sales force versus external distributors (25 percent) ▸ Cost per unit distributed, for example $0.02–0.05 per condom sold

Levels	Beginning	Intermediate	Advanced
Components of Sustainability (Note: There are no prescribed timeframes assigned)			
Financial Sustainability			
FINANCIAL ANALYSIS	Program is highly dependent on external and donor funding for the majority of its components. Sales revenues are small and do little to offset the program's operational costs. SMO's cost-accounting system allows for financial analysis of the overall social marketing program, but may not allow for analysis on a per-product basis. Indicators: ▸ Total sales revenues ▸ Total operational costs ▸ Percentage of sales revenues/total costs (30–40 percent)	Program is moderately dependent on external funding. Sales revenues cover some of overall expenditures (40 to 70 percent); external funding covers other elements. Support may or may not be directed to specific project areas, for example expanded distribution or generic BCC. Indicators: ▸ Total sales revenues ▸ Total operational costs ▸ Percentage of sales revenues/total costs (40–70 percent)	Program is only slightly dependent on external funding. Sales revenues cover a high percentage of overall expenditures (more than 70 percent). External funding may be directed to discrete elements of the program. Indicators: ▸ Total sales revenues ▸ Total operational costs ▸ Percentage of sales revenues/total costs (70–100 percent)
Institutional Sustainability			
INSTITUTIONAL ANALYSIS	SMOs do not have adequate administrative and accounting systems to know their operating costs or cost-analysis capabilities are limited. Indicators: ▸ Administrative and accounting systems allow for monitoring and tracking of costs by product ▸ Number of expatriate staff in management positions ▸ Number of local staff in management positions ▸ Legal status to operate commercial activities ▸ Diversity of program portfolio	SMO has adequate governance, cost-accounting, and internal-control systems. There is adequate efficiency, but with area for improvement. Indicators: ▸ Administrative and accounting systems allow for monitoring and tracking of costs by product ▸ Credit worthiness established ▸ Number of expatriate staff in management positions ▸ Number of local staff in management positions ▸ Legal status to operate commercial activities ▸ Diversity of program portfolio	SMO has excellent governance, management, cost-accounting, and internal-control systems. It has strong leadership and high level of efficiency. Indicators: ▸ Administrative and accounting systems allow for monitoring and tracking of costs by product ▸ History of excellent credit ▸ No expatriate staff in management positions ▸ Number of local staff in management positions ▸ Entrepreneurial culture in evidence ▸ Legal status to operate commercial activities ▸ Diversity of program portfolio

Levels	Beginning	Intermediate	Advanced
Components of Sustainability (Note: There are no prescribed timeframes assigned)			
Market Sustainability			
MARKET ANALYSIS	The market is relatively undeveloped in social marketing product segments. The SMO sells one brand per product type with branding and packaging that only distinguishes its products from free and unbranded ones. Distribution channels are relatively limited. Mass media communication is limited. The SMO is building market share and establishing a base for future demand. Indicators: ▸ Number of products per category (1) ▸ New product introductions by commercial sector within the last year (0) ▸ Percentage growth in social marketing brands (30–50 percent) ▸ Percentage growth in commercial brands (0 percent) ▸ Percentage growth in total commercial market (growth in units sold; percentage of consumers reporting use of commercial brands) ▸ Consumption of product per capita ▸ Market leader's market share (70–90 percent)	The market is developing (this process is a long-term one). SMOs may have multiple brands with multiple product attributes, including both low- and premium-priced brands. The commercial market is relatively small and usually dedicated to high-priced commercial brands. Commercial distribution channels are more developed; urban areas are well covered. Mass media communication channels are well developed. Indicators: ▸ Number of products per category (2–5) ▸ New product introductions by commercial sector within the last year (1–2) ▸ Percentage growth in social marketing brands (20–30 percent) ▸ Percentage growth in commercial brands (10 percent) ▸ Percentage growth in total commercial market (growth in units sold; percentage of consumers reporting use of commercial brands) ▸ Consumption of product per capita ▸ Market leader's market share (50–70 percent)	The market offers a variety of commercial and socially marketed brands (this process is a long-term one) with more product features and attributes. SMOs may have low- and premium-priced brands. Market expansion has allowed for commercial brands to have an increased role. Commercial distribution channels have good coverage of urban, peri-urban, and some rural areas. Mass-media communication is strong and well segmented. Multiple SMOs may exist in the market, ideally to meet the needs of different market niches. Indicators: ▸ Number of products per category (6 or more) ▸ New product introductions by commercial sector within the last year (2–4) ▸ Percentage growth in social marketing brands (10–20 percent) ▸ Percentage growth in commercial brands (20 percent) ▸ Percentage growth in total commercial market (growth in units sold; percentage of consumers reporting use of commercial brands) ▸ Percent decrease in prices of competing brands ▸ Consumption of product per capita ▸ Market leader's market share (40–50 percent)

4. SUSTAINABILITY STRATEGIES

As donor resources shift and priorities change, sustainability has become an increasingly important issue for social marketing programs. The continuum discussed in the previous section demonstrates the many factors involved in attaining sustainability. This section discusses in more detail the various indicators, assessment tools, and strategies that can move programs toward sustainability. While it is recognized that not all programs will attain full sustainability, each program may assess and strengthen its sustainability status in a variety of areas, including technical, financial, institutional, and overall market sustainability. Over the long-term, this information will create an increased awareness of the variables associated with sustainability, allow for more effective use of donor resources, and enable programs to reduce dependency on external funding. There are many documented examples of programs that have achieved sustainability; however, what is less well documented are the steps and decisions required to reach that goal.

This section provides further explanations about the sustainability indicators, how to use them, and what strategies and mechanisms exist for improving sustainability in different technical areas. As discussed in Section 5: Key Findings, Tradeoffs, and Directions for the Future, there always will be programmatic tradeoffs associated with decisions about sustainability. These indicators are offered for programs interested in improving their sustainability and are not meant to replace other programmatic indicators. Many of the indicators may be tracked for individual products and brands or for the overall social marketing program.

4.1 TECHNICAL SUSTAINABILITY

As described in the Sustainability Continuum for Social Marketing, technical sustainability is related to the traditional marketing elements commonly referred to as the 4 Ps (product, price, promotion, and place/distribution). As a result the technical sustainability of any program may be the most straightforward to achieve. Many social marketing programs, for example, recruit personnel with commercial marketing, distribution, and sales experience. In addition, most countries have a variety of professional marketing, advertising, and market research services that can be contracted when these skills do not exist in-house. Furthermore, working with a commercial organization is a way for a social marketing group to build its business skills and capacity.

4.1.1 PRODUCT

For the purpose of this paper, "product" within the Sustainability Continuum for Social Marketing relates to the sourcing of commodities. The main issue related to product supply is guaranteeing financing for the medium- and long-term to cover commodity costs. Table 1 summarizes the key indicators to be monitored. Many social marketing programs start by receiving donated products from an international donor. Achieving product sustainability requires programs to gradually reduce their dependence on donated commodities (as represented in variable A) and gradually increase the value of commodities that are commercially procured (variable B). Many programs source commodities through a mix of donations and commercial purchases, represented by the ratio of donated to commercially procured products in Table 1. This indicator links to institutional sustainability as the ability to manage international procurement tenders or negotiate supplies from commercial partners requires adequate management systems and institutional credibility.

TABLE 1. KEY INDICATORS RELATED TO PRODUCT SUSTAINABILITY

Input	Variable	Description
A =	Value of donated commodities	Estimated annual commercial value of commodity donations for a specific brand or for the program
B =	Value of commercially procured commodities	Commercial value (Cost, Insurance, Freight) of commodity procurements
Indicator	Ratio of donated to commercially procured products	A:B

Strategies that existing programs have used to improve product sustainability include:

1. Diversify sources for donated commodities. Although it does not represent a long-term solution to commodity sourcing, some social marketing projects have looked at partnerships with other donors to share commodity costs. For example, in Malawi, although USAID had provided donated condoms to a social marketing initiative during the project's start-up, Kreditanstaldt für Wiederaufbau (KfW) took over provision of condom commodities while USAID continued to support other elements of the program (Danart et al. 2004).

2. Assess interest among commercial partners to collaborate on transition strategies. There are a variety of SMOs that have negotiated with commercial suppliers to support transition strategies. Some newer social marketing models have collaborated with the commercial sector to provide initial small donations of products with the understanding that future supplies will be procured privately. In Mexico, Schering AG donated small amounts of products to a local NGO, Mexican Foundation for Family Planning (MEXFAM), to fill the supply chain. MEXFAM then purchased additional supplies directly through Schering. In the Dominican Republic, HRA Pharma provided donated commodities to Profamilia for distributing *Norlevo*, an emergency contraception product, through its community-based distribution networks at the same time as it commercially launched *Norlevo* through a local distributor (Schweitzer 2006).

Innovative partnerships: Throughout sub-Saharan Africa, the NetMark project has collaborated with a variety of multinational and African enterprises and international donor agencies. Using commercially available bed nets, the project engages commercial suppliers to target subsidies to underserved groups. For example, from 2002 to 2006, ExxonMobil donated $1.2 million to cover the cost of vouchers for pregnant women and children to obtain free or discounted insecticide-treated nets (ITNs) distributed through the commercial sector.

In Tanzania, PSI collaborated with local suppliers of bednets (after determining that there was no need to introduce their own brand), and instead coupled retreatment kits with existing commercial brands.

3. Develop a designated project fund to cover commodity procurement costs. In situations where products are donated, it is also possible to designate a portion of product revenues toward procuring future products; in some cases these funds have been called "return-to-project funds." Some social marketing projects also have sought donor resources to establish revolving funds dedicated for product procurement. In Mexico, a local NGO, Federación Mexicana de Asociaciones Privadas (FEMAP), received an initial donation from the Packard Foundation to start a revolving fund for commodity procurements. This revolving fund provided FEMAP with the capital to procure initial commodity supplies and also allowed FEMAP to consider special procurement alternatives (such as obtaining commodities through the United Nations Population Fund (UNFPA)) that required full up-front payment for products.

4. Develop procurement experience. Programs interested in moving toward sustainability also need to gain experience in procurement mechanisms for sourcing products. For example, skills are needed to work with international and local commodity suppliers. As programs mature and develop procurement experience, they are better able to negotiate prices, plan for product delivery (to avoid stockouts), and work with a range of international and local suppliers.

5. Consider generic alternatives and local manufacturers for sourcing products. For many years SMOs worked with large multinational companies that promote the global brands that are available in most markets. NGOs, however, have found it increasingly difficult to work with multinational manufacturers for hormonal contraceptives given restrictions for overpackaging of their international brands (for more information please see the lessons learned in Annex B: Peru Case Study). As the range of reliable suppliers has increased and more manufacturers of generic contraceptives are available, SMOs are increasingly working with these companies to source commodities and develop their own brands. In countries where local suppliers exist, SMOs increasingly purchase products through these manufacturers. In Pakistan, for example, two SMOs have collaborated with a local manufacturer to source the oral contraceptive product for two different social marketing brands. SMOs, however, also must be aware of quality control issues that may arise when working with local manufacturers and take measures to ensure that products meet quality standards. In Guinea, for example, the local supply of bednets created a quality control challenge and was not a viable product strategy for the local social marketing program.

6. Develop a product sustainability plan. For programs to move toward product sustainability, it is important for SMOs to develop a sustainability plan related to product procurement that outlines strategies the organization should use to transition away from donated commodities and considers competition from manufacturers and other programs. International donor activities also need to be coordinated as part of this plan. The sustainability plan should include specific targets, including the indicators described in Table 1, which should be monitored over the life of the project.

4.1.2 PRICE

Pricing has always been a sensitive issue for social marketing programs and practitioners. The critical factor related to sustainability involves understanding how the pricing strategy will impact the target audience's access to a product or service and how it will affect financial sustainability. Not all social marketing programs directly subsidize price. Some subsidize marketing, research, distribution, or other related cost elements as the market for a particular product is developed.

While it is difficult to predict how changes in pricing levels will affect consumer behavior, it is easier to quantify how price affects financial sustainability. As stated in the beginning of this paper, not all programs will be capable of achieving sustainability and not all programs will be able to price their products at full cost-recovery levels. All programs, however, should be able to document the key indicators described in Table 2. All programs should be tracking periodically their target groups' willingness to pay using research and monitoring techniques. The first important variable is being able to quantify the COGS on a per-unit basis. This per-unit cost includes a range of factors, including commodity cost, shipping, product importation, insurance, taxes, warehousing, and packaging (as described as variable A in Table 2).

The other variable (variable B in Table 2) is the price at which the product is sold to the trade. In other words, the trade price includes whatever margin the SMO will make on the product; the distributor and retailer keep their mark-ups through the rest of the supply chain which culminates in the final price to the consumer. Therefore, the key indicator is the percentage of unit COGS to the trade price; if this percentage is less than 100 percent, the product is highly or partially subsidized. The Sustainability Continuum for Social Marketing in Section 3 provides some parameters for this indicator at highly subsidized levels, partially subsidized ones, and at full cost recovery. An additional consideration is the effect of government policies and regulations on pricing. These factors should be analyzed as decisions are made regarding price.

TABLE 2. KEY INDICATORS RELATED TO PRICING SUSTAINABILITY

Input	Variable	Description
A =	COGS per unit	Estimated COGS includes all products, importation, taxes, and packaging costs
B =	Trade price per unit	Price in which products are sold to the trade (primary distributors)
Indicator	Percentage of unit COGS to trade price	B/A

Some strategies for improving pricing sustainability include:

1. Assess strategies to move subsidies increasingly toward the most vulnerable consumer segments. While all social marketing programs begin with some level of subsidy, there is discussion about how to ensure that subsidies are targeted to populations that are unable to pay full commercial prices. Some social marketing programs have introduced special mechanisms, such as voucher programs, to ensure that their products and services are accessible to special population segments.

2. Introduce premium-priced brands to cross-subsidize lower-priced products. Many social marketing projects have implemented cross-subsidization strategies to allow low-priced products and brands to remain within their market segment, supplemented by sales revenues generated by medium- and premium-priced brands. Asociación Hondureña de planificación de la familia (Ashonplafa) in Honduras and Asociación Demográfica Salvadoreña in El Salvador use cross-subsidization to keep low-priced products on the market while ensuring program income.

3. Consider whether prices may be increased in order to increase revenues. While trade prices are below the cost of goods sold, it will be difficult to achieve price sustainability. Some social marketing programs have increased retail prices gradually with little impact on sales volumes, oftentimes pegging price increases to inflation or other basic consumer goods. A number of willingness-to-pay pricing studies were conducted to estimate consumer reactions to various types of price increases.

Other programs have used gradual price increases based on market practices to bring the retail price in line with the COGS. Of course, these decisions need to be made within the context of overall program priorities. In South Africa, where gradual price increases were used as a part of a repositioning strategy for *Lover's Plus* condoms, the increases resulted in short-term sales decreases, but sales moved to higher levels within three to five months. In Cameroon a 100 percent increase in price resulted in a longer-term decrease in sales levels, although sales recovered and eventually exceeded sales at the lower price. In Nigeria the price of *Gold Circle* condoms has been raised several times without any long-term drops in sales. In this case the Society for Family Health has increased prices when it observed that actual retail prices exceed recommended retail prices; a relatively simple indicator of people's willingness to pay higher prices.

4. Document pricing indicators and develop medium- and long-term targets for gradually improving pricing sustainability. While some programs may be able to adopt strategies for improving pricing indicators, the broader needs of a program and its target market's inability to bear the burden of additional price increases may limit other pricing efforts. Hence another important step will be documenting the current pricing indicators and developing medium- or long-term targets for gradually improving this indicator.

4.1.3 PROMOTION AND MARKETING

Social marketing programs primarily implement two types of communication: brand- or product-specific marketing, and generic BCC. An inherent tension exists between the two types in that generic communication is by nature not sustainable.

Almost all social marketing programs implement brand- and product-specific promotion and marketing strategies related to commercial sales. These brand- and product-specific communication strategies often address key issues related to product acceptance (such as moving consumers along the behavior change continuum), but they also are intended to establish the product's commercial viability by generating demand for it. Some social marketing programs implement more generic BCC interventions, often designed to address the special needs of specific populations (for example high-risk groups and hard-to-reach audiences). Another example of generic BCC involves campaigns designed to promote a category of product, such as all oral rehydration salts (ORS) brands or all oral contraceptive brands. In some social marketing models, brand-specific advertising that commercial manufacturers conduct often complements these category-wide efforts. In the NetMark program, for example, brand-building efforts are leveraged through a prerequisite that all partners invest in their own brands to be eligible for program support. In the Private Sector Program (PSP)-India ORS project, individual activities conducted by several ORS manufacturers to strengthen product distribution and sales promotion supplement category-building advertising and promotional efforts. All participating manufacturers follow World Health Organization formulation guidelines; therefore, the program has a quality-assurance aspect as well.

Both brand-specific and generic communication strategies have sustainability challenges. Generally, communication efforts are one of the more costly line items in a social marketing program. Therefore communication strategies may be seriously impacted when sustainability and budget decisions are made, especially when program resources are limited. The investment required to change behaviors depends on the existing knowledge and awareness levels of the target audiences; however, behavior change typically requires sustained communication over time, even when knowledge and use levels are high. In cases of new programs or programs with deep-seated negative attitudes or other barriers, donor support often funds promotional investments, which generally require higher investments than the marketing and promotional investments commercial marketers make. As programs mature, sales revenues may cover costs related to brand- and product-specific advertising. Increasingly social marketing programs are demonstrating the feasibility of sustaining brand- and product-specific marketing and promotional activities. See Annex B: Peru Case Study and Annex E: Honduras Case Study for examples.

It is even more difficult to sustain larger-scale, generic BCC interventions designed to meet the needs of hard-to-reach populations. These interventions usually require donor support. This trade-off may be acceptable to donors, given the public good that reaching underserved audiences accomplishes. The reality is, however, that many social marketing programs that have implemented large-scale behavior change or umbrella campaigns have found it difficult to continue these activities. Once the project ends, it is unlikely that commercial firms will continue to fund this general activity given their need to link communication investments directly to sales of their own products.

Even if additional support is not forthcoming, these types of interventions benefit from partnerships with the commercial sector and other partners during the generic campaign, continuation of brand advertising after the campaign (funded directly by individual organizations), and increased brand and category sales once the program ends (Agha, Do, and Armand 2005). An example of this kind of campaign is the *Kinat al Hilal* project in Morocco. Its Crescent Moon Pill campaign used a project logo, advertising, and promotion to increase sales of low-dose oral contraceptives. Schering and Wyeth each designated one of their brands as the *Kinat Al Hilal* brand. The project graduated at the end of 1996 (a modest amount of USAID support continued to cover the cost of a local manager). From 1997 to 2004 the entire market for oral contraceptives continued to grow.

Other organizations have begun to track separately their brand-specific generic behavior change investments to address this distinction in communication investments. In Central America, for example, PSI tracks marketing and promotional costs related to specific brands separately from its generic BCC interventions that are targeted toward high-risk audiences (Cisek, Kindsfather, Pritchard 2002). While PSI anticipates that program revenues eventually will cover marketing-related costs, the organization states that the generic BCC interventions never will be self-sustaining because they are labor-intensive efforts designed to address deep-seated behaviors among hard-to-reach audiences. Moreover, promoting risk-reduction behaviors and educating hard-to-reach audiences does not necessarily translate into sales. By separating the accounting for generic BCC efforts from those of brand-specific activities, SMOs can assess and monitor program costs in a more efficient manner.

The degree to which a market is already developed and the scale of health problems such as HIV/AIDS also impact a program's emphasis on generic versus brand communication. In a fairly developed market where the HIV/AIDS pandemic is generalized to a significant portion of the population, for example, generic BCC promoting abstinence and faithfulness may be easier to underwrite and may have a larger behavioral impact on the target audience than generic efforts in smaller markets with lower prevalence rates.

The sustainability indicators in Table 3 will help programs document and track the types of investments that are being made in communication in order to develop realistic projections about the requirements for future resources.

TABLE 3. KEY INDICATORS RELATED TO PROMOTION/COMMUNICATION SUSTAINABILITY

Input	Variable	Description
A =	Cost of brand-specific marketing and promotion	Costs that can be directly allocated to specific social marketing brands/product lines (by product and/or overall program)
B =	Cost of generic BCC interventions	Costs that are related to generic BCC activities
C =	Sales revenues	Total sales revenues generated by product or program
Indicator	Ratio of brand-specific to generic BCC	A:B
Indicator	Percentage of brand-specific marketing and promotion expenditures to sales revenues	A/C

Some strategies for strengthening sustainability related to promotion and marketing include:

1. Track costs related to brand- or product-specific (retail and consumer) marketing versus generic BCC interventions. The first step in understanding the costs related to these communication components is to implement accounting mechanisms to separate and independently monitor these costs. Some programs already will have this capability, while others will be limited by project-based accounting systems that do not allow them to track costs by product or brand. It is best to establish a system that allows tracking of costs (such as advertising and promotional) by brand versus more general BCC costs (such as community outreach to specific audience segments or category-building campaigns). Sustaining pure generic communication almost always will require some subsidies, either from a donor or profitable product lines (see Annex C: Romania Case Study). Tracking costs accurately is critical to ensuring that generic communication work does not jeopardize the sustainability of the organization itself.

2. Compare marketing costs to overall sales revenues over the project life cycle. New social marketing programs may need to invest in consumer- and trade-related marketing and promotional activities. During the start-up period, donor support generally funds promotional expenditures—and the cost of the activities may be higher than the project's sales revenues. As the program matures, however, these costs should align with sales revenues. For self-sustaining programs, marketing and promotional investments are more similar to normal commercial practices, representing approximately 10 to 15 percent of sales revenues. At this stage investment in branded communication should be fully recovered through increased revenues.

3. Compare impact indicators (such as percent increase in sales or documented changes in behaviors) with communication investments. While many programs have implemented evaluation mechanisms to monitor the impact of communication initiatives, few programs have conducted analyses comparing investments in communication with impact achieved. This type of analysis would ensure that programs are making investments in communication activities in proportion to expected outcomes. And it would improve cost effectiveness and contribute to sustainability indicators. Analyzing this data in terms of demographic and socioeconomic variables also will help ensure that the intended audience is benefiting from the communication efforts.

4. Develop communication strategies that leverage local institutions. In the early stages of a social marketing program, when raising general awareness about a health issue is important, communication efforts often depend on external funding for campaigns. As awareness and knowledge increase, communication strategies can work through local institutions (such as governments, commercial companies, schools, NGOs, and churches) to catalyze discussions and sustain message dissemination. The SMO should track knowledge indicators to determine when such a strategy shift is appropriate. Commercial companies also may contribute to this tactic through branded communication. The SMO can become more sustainable in its approach to communication by doing less itself and helping others to do more.

4.1.4 PLACE AND DISTRIBUTION

Many innovative distribution channels have been developed to increase the availability of and access to crucial products. One of the main advantages of a social marketing program is its ability to tap into existing commercial distribution channels to make quality and affordable products available in a variety of outlets. The main issue related to increasing the sustainability of distribution systems is to develop standardized and measurable indicators for monitoring these costs and for making decisions related to increasing access based on the overall cost-benefit and health impact of the program. Social marketing programs generally have developed their own distribution capability (usually in countries where the existing commercial infrastructure was too weak to allow sufficient access) or used commercial distributors to handle social marketing products.

The indicators in Table 4 are designed to help programs quantify distribution efficiencies and costs to improve the sustainability of distribution systems.

TABLE 4. KEY INDICATORS RELATED TO DISTRIBUTION SUSTAINABILITY

Input	Variable	Description
A =	Number of products the internal sales force distributed	Volume of products (in units) the SMO's own sales and distribution force dispersed
B =	Number of products an external sales force distributed	Volume of product (in units) commercially dispersed
C =	Cost of distribution force (such as personnel, vehicles, commissions, and benefits)	Costs of distribution force allocated by product or for the overall program
D = A + B	Total number of product units distributed	Number of units distributed by product or for the overall program
Indicator	Percentage of products distributed through the internal sales force	A/D
Indicator	Cost per unit distributed	C/D

Strategies that have improved the sustainability of distribution systems include:

1. Assess distribution costs associated with the social marketing program. Social marketing programs should have the capacity to track and monitor costs related to the distribution elements of the program. When the social marketing program conducts these activities directly, costs should include items such as warehousing, personnel, and vehicles. The cost-per-unit-distributed indicator should be analyzed by sales person, territory, and rural versus urban segments. When distribution is done for rural or hard-to-reach groups, tracking these costs is important for knowing how much subsidy is required to ensure equity of access. These costs should be tracked and they should decrease as product volumes increase. Programs should establish standard parameters for the information being included in cost analysis.

2. Consider strategies to improve cost effectiveness in distribution. While some social marketing programs started by developing their own distribution infrastructures, current trends include outsourcing the distribution function to commercial operations or supporting commercial partners' direct management of procurement and distribution. Donor funding has subsidized many of the alternative distribution systems that have been developed to increase access beyond normal commercial channels. In Tanzania, for example, PSI uses its own representatives to distribute condoms to high-risk outlets, such as hotels, motels, and bars since most commercial distributers do not serve these locations. Because sales to these outlets are not viable from a commercial point of view, they tend to be difficult to sustain without donor support.

In terms of sustainability, SMOs generally shift from direct to indirect distribution—whereby their distribution forces become increasingly specialized or targeted, while increasing the role of commercial distributors. A variety of mechanisms can improve cost effectiveness, including renting out excess space and outsourcing specific components. In the Philippines, DKT International outsourced its sales and distribution force. Several of DKT's former employers developed their own company to handle sales and distribution initiatives. DKT contracted through them to handle these functions and it also was able to reduce salary costs, benefits, and other expenses related to not having these individuals as direct employees (Connell, Cisek, and Robertson 2005).

3. Assess tradeoffs associated with different distribution models. Recently SMOs have moved away from exclusive distributor relationships to working with multiple national, regional, and local distributors. In some countries special distribution teams supplement commercial systems—often through project financing—to cover hard-to-reach areas. When these systems are not commercially viable, however, they will disappear without donor financing. In Peru, as the NGO Apoyo a Programas de Población's (APROPO) experience revealed, NGO-sponsored direct sales are difficult to sustain and efforts should be made to achieve access to the market through existing commercial channels when donor support is phased out.

4.2 FINANCIAL SUSTAINABILITY

Financial sustainability refers to a program's ability to generate revenues to cover its operational costs. There are only two ways for programs to increase financial sustainability: by increasing sales revenues or by decreasing operational costs. Most programs reach financial sustainability by achieving a combination of both factors. Although not all programs will achieve financial sustainability in the short- or medium-terms, all of them can document more clearly and systematically their current levels of financial sustainability and develop, based on the program's priorities, projections for how sustainability levels will change. There is also increasing evidence that becoming financially sustainable does not mean abandoning socially beneficial activities or failing to serve high-risk groups (for more information please see Annex C: Romania Case Study). The indicators in Table 5 represent the basic variables for documenting financial sustainability; however, there is still a need to develop more explicit standards for reporting and analyzing financial information among SMOs.

TABLE 5. KEY INDICATORS RELATED TO FINANCIAL SUSTAINABILITY

Input	Variable	Description
A =	Total sales revenues	Annual sales revenues generated by a product or program
B =	Total costs	Total annual costs by product or program
Indicator	Percentage of sales revenues to total costs	A/B

Strategies for increasing financial sustainability include:

1. Identify areas where program costs may be reduced. Many programs faced with donor phase-out must make dramatic cuts in their personnel. Most often these cuts are not the result of strategic planning, but are just reactions to a reduced budget. In the case of FEMAP, in Mexico, the organization was reduced from 30 people to eight. "With eight people, we went on doing what we had been doing with 30, which proves that we had too many people" (Alkenbrack and Shepherd 2005). As programs move toward sustainability, they must make strategic decisions about where there are inefficiencies. At the same time, they should not sacrifice the long-term viability of the organization by eliminating all capital investments and resources to build brand equity.

2. Define parameters for financial sustainability analysis. Most social marketing organizations calculate their financial sustainability based on internal criteria. It would be helpful if social marketing organizations used standardized calculations. This approach would promote consistent ways to analyze performance and permit cross-program analysis. In Honduras, for example, one local NGO was reporting financial sustainability targets without including indirect costs (such as administrative and support costs), which artificially inflated their sustainability levels for the technical levels of its program, including the social marketing project (Ojeda and Cisek 2005). Another area of confusion lies in the way capital investments are treated. In a typical project accounting system, capital investments in buildings, vehicles, and equipment are expensed immediately, which can lead to wide fluctuations on the cost side. In a commercial approach, capital investments are amortized over time, thereby better matching the expense to the time period in which the investment contributes to the operation.

3. Diversify product sales to increase program revenues and spread operational costs across a wider range of products. Profamilia, the International Planned Parenthood Federation (IPPF) affiliate in Costa Rica maintains a successful social marketing initiative that has been sustainable for several years. Part of Profamilia's success is attributed to it having diversified the products it markets to include a range of health and hygiene products (Cisek and Olson 2005). Diversification per se, however, is no guarantee of increased sustainability—and some programs have done well without major diversification (for more information please see Annex C: Romania Case Study). When new products are introduced, they must be sold at a price above COGS and cover marketing and overhead costs. Additionally, the organization must have the capacity to manage multiple product lines. If this status is ensured, then diversification will increase efficiency by reducing the cost per product sold, providing some portfolio protection against shock affecting a single product line and improving the ratio of revenues to expenses. Diversification into additional subsidized product lines could make an SMO less sustainable. Selling products at prices below COGS means that the absolute level of donor subsidy to the organization will increase because the SMO is losing money each time it sells a unit.

4. Identify areas where cash flow may be a problem. Even when programs achieve sustainability in pricing, an SMO may still face other financial constraints. Limited cash flow may inhibit programs that require large outlays of cash for purposes such as product procurement or strategic investments to allow for program expansion. Building up working capital, negotiating supplier credit, securing adequate advances from donors, or obtaining commercial financing can address this constraint. Cash flow also can be improved through efficient product procurement planning (that is, smaller and more frequent orders negotiated for an entire year), limiting credit to distributors, and analysis of margins to ensure adequate revenue. Programs with limited margins of financial sustainability may face long-term erosion of their competitive standing and limited growth (for more information see Annex B: Peru Case Study).

5. Ensure that social marketing organizations have a financial sustainability plan. As stated earlier, not all programs are expected to achieve financial sustainability. All SMOs, however, should document financial sustainability levels—and make projections outlining how sustainability will change (in the context of program priorities) over the medium term. Many programs do not monitor financial sustainability levels because there is no expectation that they will become 100 percent financially sustainable. Even SMOs that are expected to achieve financial sustainability often do not systematically monitor these indicators. For example, in Honduras, Pan American Social Marketing Organization (PASMO), a local NGO implementing an HIV/AIDS prevention program, had implemented a condom social marketing program that was supposed to achieve self-sufficiency by 2006. There were no benchmarks or interim indicators, however, identifying how the project would achieve financial sustainability (Cisek and Merten 2005). Financial systems are needed for social marketing programs that will achieve dual objectives: meet donor tracking requirements and perform cost-accounting functions. Many SMOs currently lack these systems.

4.3 INSTITUTIONAL SUSTAINABILITY

A variety of mechanisms and strategies exist to allow NGOs and social marketing programs to improve their institutional sustainability. The process, however, it is not an easy one. Organizational culture, management capabilities, and attitudes regarding sustainability are important factors determining how NGOs approach sustainability and how successful they are in achieving it (Cromer et al. 2004). Although nearly all of the literature on organizational development focuses on non-profits, the same criteria can be applied to commercial entities. Any program using commercial partners in its approach should consider these factors in deciding which commercial organizations to work with and how large a role to give them. The elements of a sustainable SMO are the key components for any organization (commercial, governmental, or not-for-profit): strong leadership, sound management, and good governance. Leadership is manifested in the clarity of the organization's vision and mission. Management capacity is manifested in the productivity and efficiency of the staff and the systems and processes it uses. Governance is manifested in the strength of internal controls at all levels and compliance with laws. Institutional sustainability is much more difficult to assess in quantitative terms, so the indicators in Table 6 are mainly illustrative. Even when working with commercial entities, institutional capacity often requires strengthening. Companies need to have adequate staff to assume responsibility for managing products supported through social marketing programs.

TABLE 6. KEY INDICATORS RELATED TO INSTITUTIONAL SUSTAINABILITY

Indicator	Description
Leadership	
Number of staff and stakeholders who can accurately describe the mission and vision of the organization	The mission and vision of the organization are articulated, understood, and embraced by staff and stakeholders
Strategic planning exercises are conducted at least annually and plans are consistent with mission statement	The organizational mission is reflected in strategic planning and decision making
Formal feedback mechanisms exist for ensuring ongoing customer feedback	Leaders of the organization insist on and demonstrate a strong customer focus
Management Capacity	
Number of reports that can be generated that track the profitability and efficiency of product lines or business units	Administrative and accounting systems allow for monitoring and tracking of costs by product line or business unit
Number of monitoring and evaluation reports that track organizational, business unit, and employee performance	Administrative, financial, or technical systems for tracking performance by the organization, the business unit, or the employee (systems should link with strategic plans)
Transparent recruitment processes, staff training programs, and performance evaluation systems exist and are documented	Human resource management systems promote the attraction, development, and retention of talented staff
Percentage of key personnel the SMO employs in country	Key technical and management personnel the SMO employs are based with the SMO
Governance	
Local laws exist permitting the SMO to conduct commercial activities	Legal status permits operating commercial activities and registration for the SMO and its brands
Organizational statutes, incorporation documents and documentation of their application exists	Texts governing the SMO are appropriate, comprehensive, and consistent with local laws
Governing body (board) meets frequently and documents decisions in meeting minutes	Governance functions are operational and effective

Institutional sustainability strategies include:

1. Governing bodies and senior management articulate the organizational mission and vision. The organization's mission and vision must guide the decisions that affect organizational sustainability (such as the choice of product range, target group, and partners). The mission and vision consider what the organization's founders want to accomplish, what they are best at doing, and where there are the greatest opportunities. The mission and vision may evolve, but there should not be major changes with every strategic plan or funding opportunity.

2. Conduct annual audits to review accounting and administrative procedures. Use audits to improve management systems. SMOs should be subject to annual audits by external auditors to review their accounting and administrative procedures. The scope of these audits should cover internal control measures as well as the reliability of financial reports and management information systems. Ideally accounting systems delineate appropriate cost aggregation to permit real-time analysis of the profitability (excess of revenues over expenses) and efficiency (cost per output) of product lines or business units.

3. Ensure that organizations have the legal status to conduct commercial operations. Social marketing programs may start without the appropriate legal registrations (such as brand, product, or organization). SMOs that begin as projects often fall into a gray area where strict compliance with local laws governing commercial organizations is not enforced. Transitioning to a more sustainable status may require identifying the appropriate legal guidance and ensuring compliance with the relevant laws and policies.

In addition international donors are paying increased attention to brand ownership issues to ensure that they have flexibility in determining which implementing agencies to support and which entities should maintain brand ownership (Mackay 2002). If the program's objectives include strengthening local institutional capacity, it is essential that brands and trademarks be legally registered with the local entity. Another organizational consideration relates to an SMO's legal status to manage commercial operations. In many countries SMOs have developed both non-profit and for-profit entities to allow them to manage commercial operations.

4. Reduce dependence on expatriate personnel, especially in management positions. Where social marketing has been introduced as a new tool, it sometimes has been efficient to use expatriate managers to establish and grow SMOs. While expatriate personnel often provide strategic oversight of social marketing projects, SMOs must assess the advantages and disadvantages of having a large percentage of expatriate personnel. In most cases expatriate personnel add significant costs to the program—therefore they can have a major impact on financial sustainability as well. Reducing reliance on expatriate personnel does not mean that SMOs should have no access to external technical assistance or support. Indeed, a locally managed SMO with strong links to international sources of best practices and technical expertise may be the strongest option. Realistically, unless the local management team has the capacity to manage internationally supported social marketing programs, a management model whereby an experienced expatriate resident advisor supports the local staff for a fixed period of time may be beneficial. A timeline and phase-out plan for the resident advisor's role should be stated clearly, with joint reviews with the donor agency to determine the readiness of the local management team to fully assume project management duties.

Some local SMOs have developed relationships with well-known international NGOs to improve their social marketing interventions (for more information see Annex A: Ivory Coast Case Study). Even when an organization is benefiting from donor-supported institutional strengthening, there is no reason to support the creation of a monopoly for the local institution. The comparative advantages of international organizations and commercial companies should be considered when defining a role for the local SMO.

4.4 MARKET SUSTAINABILITY

Many of the factors related to market sustainability are exogenous to program implementers. SMOs have little to no control over variables such as economic stability, purchasing power, willingness to pay, commercial infrastructure, and the role of the public sector in providing similar products. Nevertheless, it is important to consider the market context in which social marketing programs operate. Many of the strategic decisions donors and program implementers make are a function of the estimated market sustainability five to 10 years into the future.

TABLE 7. KEY INDICATORS RELATED TO MARKET SUSTAINABILITY

Indicator	Description
Number of products per category	Number of different presentations or brands per product category in commercial market
New product introductions by commercial sector	New brands or presentations introduced by the commercial sector within the last year
Percentage growth in social marketing brands	Percentage increase in social marketing sales within the last year
Percentage growth in commercial brands	Percentage increase in commercial brand sales within the last year
Percentage growth in total commercial market	Percentage increase in total commercial market (social marketing and commercial brands) within the last year
Percentage decrease in other brands' prices	Prices of comparable commercial brands decrease to become more competitive

Market sustainability strategies include:

1. Monitor growth in total commercial markets to ensure that social marketing products do not evolve into "monopoly" situations. Under normal circumstances a growing market will generate opportunities for the commercial sector to introduce new products. These trends usually translate into total market growth for the product category. In Guatemala one assessment report cited "the concern for focusing subsidies only within PASMO is the potential for PASMO to drive its major competitors out of the market. Over the long-term, a supply monopoly would cause the market to lose its competitive edge and potential for rapid growth (Cisek, Kindsfather, and Pritchard 2002)."

2. Monitor donor investments in demand-generation activities versus other commercial entities' investments. While most commercial firms and some SMOs conduct brand-specific advertising and promotional activities, many social marketing programs also implement donor-supported campaigns to promote a product category (such as condoms) that benefit all manufacturers. In developed markets programs have opted for strategies to stimulate growth among multiple players, rather than invest in a single organization or brand. In Nigeria, for example, Constella Futures implemented a social marketing project for ITNs that included generic promotion for three different ITN distributors. The NetMark project's social marketing of ITNs throughout Africa has helped to increase the use of free, subsidized, and fully commercial products from all sources and across different socioeconomic groups. Similarly, in India the PSP project supports category-building efforts that link to numerous ORS manufacturers and their brand-specific marketing programs.

3. Evaluate the benefit of introducing lower-priced brands into markets that already have multiple sustainable brands. SMOs operating in markets that include a number of self-sustaining social marketing brands should evaluate carefully the impact of introducing new, lower-priced brands without market-based or research evidence that affordability continues to be a barrier for large population segments. While there is often interest in increasing affordability and reaching new segments of the population, this strategy can weaken sustainability by encouraging consumers who are paying commercial prices to purchase subsidized products. In Romania, PSI discontinued its oral contraceptive brand because of the variety of affordable commercial brands that existed in the marketplace. Instead, the program focused on generating demand through generic BCC efforts. This strategic decision, while negatively impacting financial sustainability in the short-term, did contribute to improved market sustainability in the long-term. In Peru, APROPO was interested in launching a lower-priced condom brand. PSP-*One* conducted an assessment that concluded, "There is little evidence, however, that a lower-priced condom brand is needed; and there is concern that a lower-priced brand would simply pull users away from existing brands. In addition, introducing a new brand would require a significant investment." (Mitchell and Cisek 2006). As an NGO moves toward sustainability, it needs to develop profitable product lines to compensate for the eventual loss of donor support.

4. Identify opportunities for coordinating social marketing interventions in cases where multiple SMOs exist. There are increasing instances where multiple SMOs exist within a country. Several assessments have been conducted and strategies have been developed to promote the notion of managed competition. In Pakistan, for example, both PSI and Constella Futures implemented competing social marketing initiatives. Given that Pakistan represented a large potential market, there was sufficient opportunity for more than one SMO to operate. At USAID's initiative the two organizations attempted to develop common parameters to segment target audiences, report on project indicators, and monitor project impact. Donors should be aware that designing and tracking a managed competition model entails a significant amount of work and can be difficult to achieve (Futures Group International n.d.).

5. Monitor the level and nature of demand for socially marketed products. Growth of the commercial market is one indicator of changes in the level of demand, but research on product use by different population segments also will verify how sustainable demand is. For example, is the product class known, accepted, and used across all socioeconomic segments of the population? Or is demand still at a low level and dependent on continuing communication campaigns? If demand for the product class is broad-based, are consumers developing preferences for product variants that provide new market opportunities? Alternatively, demand may be broad-based for specific products and services, but willingness to pay may be too low for the market to be sustainable.

5. KEY FINDINGS, TRADEOFFS, AND DIRECTIONS FOR THE FUTURE

5.1 KEY FINDINGS ON SUSTAINABILITY

This paper has offered a conceptual framework for analyzing four dimensions leading to: technical, financial, institutional, and market sustainability. It also has established standard indicators for assessing how programs are performing in these areas and outlines some initial strategies for improving sustainability indicators. The following section summarizes some of the key elements presented in the paper.

5.2 TECHNICAL SUSTAINABILITY

The technical sustainability of social marketing programs involves a variety of elements related to the 4 Ps of marketing: product, price, promotion, and place (distribution).

Product sustainability, as discussed herein, is related to the long-term sourcing of commodities. To achieve product sustainability, it generally takes time for programs to shift from donated to commercially procured products. But there are a variety of strategies that can be used to make that change. Of course, some social marketing models start by collaborating with commercial partners and their existing brands, using project support to subsidize other areas to build demand for social marketing products. Perhaps the most important step for programs that rely on donated commodities is beginning to monitor product sustainability indicators and developing a sustainability plan. Finally, the SMO's product procurement must be planned in the context of what is happening in the total market. Duplication of public-sector provision should be avoided, the risks of crowding out the commercial sector must be considered, and market segmentation strategies should inform product decisions.

Pricing always has been a controversial issue for social marketing programs and practitioners as programs have adapted different parameters for establishing appropriate pricing levels. While it is more difficult to predict how changes in pricing levels will affect consumer behavior, it is easier to quantify how price affects financial sustainability. As stated at the beginning of this paper, not all programs will be capable of achieving sustainability and not all programs will be able to price their products at full cost-recovery levels. All programs, however, should be able to document key indicators. In addition, greater use needs to be made of tools to set prices, including willingness-to-pay surveys, inflation tracking, and comparing actual prices with recommended ones.

The sustainability of **promotion and marketing** is perhaps one of the most difficult challenges, given that communication costs are generally one of the most expensive line items in a social marketing budget. On one hand, there are increasing numbers of social marketing programs demonstrating the feasibility of sustaining brand- and product-specific marketing and promotional activities. On the other hand, it is more difficult to sustain larger-scale, generic BCC interventions designed to meet the needs of special populations.

Many innovative **distribution** channels have been developed to increase the availability of and access to crucial products. One of the main advantages of a social marketing program is its ability to tap into existing commercial distribution channels to make quality, affordable products available in a variety of outlets. During the initial phase of social marketing programs, however, when a product is not well known or accepted, it is often necessary for SMOs to manage their own distribution teams. And while some social marketing programs develop their own supplementary project-based systems, generally the tendency in moving toward sustainability is to shift from direct to indirect distribution, whereby distribution forces become specialized (targeted), and the role of commercial distributors is increased.

Underlying all of these technical components is the importance of designing strong monitoring and evaluation systems. A sound monitoring and evaluation component will help ensure that all of the technical dimensions are operating at maximum efficiency and that quality standards are met.

5.3 FINANCIAL SUSTAINABILITY

Most programs achieve financial sustainability by reducing costs and increasing revenues. Although not all programs will achieve full financial sustainability in the short- or medium-terms, all of them can begin to document more clearly and systematically their current levels of financial sustainability and develop, based on the priorities of the program, projections for how sustainability levels will change. Although diversification may provide improved efficiencies and some portfolio protection, alone it does not guarantee financial sustainability. Diversification of products may allow the SMO to spread its fixed costs across a wider range of activities, thereby reducing its costs per unit sold.

Examples from social marketing programs worldwide show that there is increasing evidence that becoming financially sustainable does not mean abandoning socially beneficial activities or failing to serve high-risk groups. To improve reporting mechanisms for financial sustainability, however, there is a need to standardize the reporting and monitoring of financial and cost information to allow for stronger internal controls and better comparison across programs.

5.4 INSTITUTIONAL SUSTAINABILITY

A variety of mechanisms and strategies exist to allow NGOs and social marketing programs to improve their institutional sustainability. The process, however, is not easy. Institutional sustainability generally requires investments in local capacity building. Organizational culture, management capabilities, and attitudes regarding sustainability are important factors in determining how NGOs approach sustainability and how successful they are in achieving it (Cromer et al. 2004). The elements of a sustainable social marketing organization are the key components of any organization, (commercial, governmental, or not-for-profit): strong leadership, sound management, and good governance. Achieving institutional sustainability requires special technical assistance as well as dedicated resources. Donors should make careful assessments of organizations and be prepared to take a long-term view before pursuing this strategy. Established commercial companies are less likely to require capacity building to be sustainable, but their governance and commitment still need to be considered when forming partnerships.

5.5 MARKET SUSTAINABILITY

Many of the factors related to market sustainability are exogenous to program implementers. SMOs have little to no control over variables such as economic stability, purchasing power, willingness to pay, commercial infrastructure, and the role of the public sector in providing similar products. Nevertheless, it is important to consider the market context in which social marketing programs operate. Many of the strategic decisions donors and program implementers make are a function of estimated market sustainability five to 10 years into the future. In addition, many countries have situations where multiple donors are supporting numerous social marketing interventions and other types of private sector interventions—which also have important implications for market sustainability. In places where this environment exists, donors are trying to develop mechanisms to ensure the most effective segmentation of markets and to avoid duplication of resources. As programs mature, donors should look at models that support generic demand-side communication and marketing-building activities rather than investing in one or two specific brands.

5.6 SUSTAINABILITY TRADEOFFS

5.6.1 TECHNICAL SUSTAINABILITY

The desire to strengthen sustainable **product** procurement systems can involve tradeoffs related to quality (such as locally manufactured versus imported products) and security (such as the guarantee of continuous supply). In addition, to avoid problems such as crowding out commercial brands, market-segmentation techniques must be applied to ensure that product offerings are targeted to audience groups that are distinct from target groups reached by other sectors and organizations (such as the public sector and higher-end commercial sector).

The **pricing** of products and services is the area where reconciling sustainability and reaching target groups is most difficult. If an SMO is to generate revenues in excess of product costs, it must charge a given price. If the SMO's target audience is willing to pay a price at that level, then charging sustainable prices and reaching the target group can be reconciled. This goal has been easier to achieve for condoms, a low-cost product typically targeted at urban, high-risk groups. For products with higher unit costs (such as bednets, which are most needed among rural, lower-income groups) the gap between sustainable prices and affordability has been harder to bridge. Given how important this issue is, it is surprising how rarely willingness-to-pay research is used to inform pricing decisions. Differential pricing for separate market segments and targeting price subsidies through the use of vouchers and other techniques also are underused strategies for reconciling sustainable pricing with equity of access.

Without external support, **communication** interventions can be sustained only when they translate directly into increased revenues for the SMO. For this situation to be the case, the socially marketed product must have dominant market share (in which case increased demand for the product class will translate into increased sales of the product). Or, in a competitive market, the communication must focus on the specific brand with a view toward increasing its market share, possibly to the detriment of other brands. This approach usually means maintaining brand- and product-specific promotion and marketing activities that are targeted toward the retail trade. In a typical social marketing program, there is a high investment in communication during the early years to build acceptance of the product class and the equity of the socially marketed brands. Over time the level of investment declines and is limited to maintaining a positive brand image. It is unlikely that long-term, large-scale mass media campaigns can be supported in a sustainable program.

Moreover, highly targeted communication promoting behaviors that do not involve the use of a product are unsustainable and will require ongoing subsidies to be maintained. The public good resulting from more generic communication efforts must be measured against the cost of conducting these campaigns.

If **distribution** systems are expected to be sustainable, they must rely on existing commercial networks. Yet the commercial network of wholesalers and retailers often does not reach the neediest groups because the costs of taking products to rural areas is higher while the potential returns are lower. As a result distribution strategies that reach outlying areas or other groups beyond the commercial network often require subsidies. Donors and SMOs must determine how programmatic priorities should influence distribution decisions.

5.6.2 FINANCIAL SUSTAINABILITY

Often SMOs must balance the **financial** reporting requirements of international donor agencies with their need to implement strong cost-accounting systems to track expenses. Donors' needs may include requirements to track funding according to the type of budget supporting the program (such as population funding versus specialized accounts, for example the President's Emergency Plan for AIDS Relief funding). The government fiscal year or program year is often used to establish the timing of reporting. In a commercial setting, accounting systems tend to be linked to a commercial fiscal year, which often does not match donors' timelines, and the accounting elements are delineated by variables such as COGS and margins to wholesalers and retailers, which are typically not items included in financial reporting systems to international donor agencies.

5.6.3 INSTITUTIONAL SUSTAINABILITY

If **institutional sustainability** is a goal of the project, it will take time and resources to build this capacity. While it is feasible to strengthen institutional capacity, it is unrealistic to expect this outcome to be achieved within a short timeframe. Training, capacity building, strategic planning, and systems development are important tools that require steady inputs of human and financial resources. In the short term, increasing institutional capacity is likely to come at the expense of reduced health impact. The process of achieving institutional sustainability varies and does not occur within a fixed timeframe. Stakeholders should invest in institutional capacity only if they have an understanding that it may be three to five years before the institutional investments pay off in terms of increased health impacts at lower costs. For a more detailed discussion of this issue, see Annex A: Ivory Coast Case Study.

If high-level expatriate expertise is needed to lead an SMO, then operating costs will increase. Senior technical experts at the international level often can contribute valuable management, leadership, and program skills, and they can be mobilized and demobilized quickly. This type of management model, however, is more expensive than using and developing local talent. Financial and institutional sustainability in particular may be compromised in this approach because the organizations and the skills needed to implement successful social marketing are not based in the local market. This possibility does not mean the strongest local organizations are ones with no external linkages or support. Complete self-reliance may be a weakness if it means working in isolation. The objective should be to balance the need to maintain core skills in the local market while building international linkages that allow the SMO to make the most of global knowledge and innovation. Building local capacity to implement sound social marketing programs is a common objective in donor-supported development assistance. Finding cost-effective and realistic ways of accomplishing this feat, however, remain a constant challenge.

5.7 ISSUES FOR THE FUTURE

One of the challenges related to sustainability in social marketing has been that programs define sustainability in their own terms. This paper has established some initial indicators that will help program managers, donors, and decision-makers begin to standardize the ways in which they discuss sustainability parameters. This section identifies areas where additional documentation and, in some cases, research is needed to continue to advance the discussion of sustainability indicators.

1. Assess and document advantages of new social marketing and private-sector development models. As documented throughout this paper, social marketing programs operate in a dynamic environment. Increasingly programs are using blended or hybrid models. As these new models are implemented and tested, they must be documented thoroughly and evaluated to understand their strategic advantages, tradeoffs, and impact on sustainability.

2. Further evaluate and refine strategies to improve subsidy targeting. While social marketing programs have begun to look at ways of ensuring that subsidies are directed toward the populations who need them, there is little documentation and evaluation of these efforts. New approaches, such as voucher programs, must be further analyzed to determine their potential impact on and contribution to sustainability. These strategies need to be evaluated and documented. In addition, programs should be conducting research to document which consumer groups are benefiting from social marketing programs and what percentage of the program's target audience is being reached. A related question requiring further study involves analyzing the impact on sustainability of donors' current trend to target social marketing products to high-risk groups rather than the general population.

3. Develop dual financial systems to meet donor requirements and track cost-accounting variables. Other donors, such as DFID, have identified the need to address accounting and reporting requirements. Development of standard methods for tracking costs associated with social marketing programs would be a significant contribution to the field and would strengthen the ability of donor agencies to analyze and compare programs in different countries.

4. Further assess and document the impact of having multiple social marketing programs in a single country. As described in this paper, there are a number of countries where multiple social marketing programs are operating—and this trend seems to be increasing. It will be important for donors to look carefully at the impact of these programs to assess whether competition helps programs to be more effective in achieving their goals or whether in some cases duplication of efforts is detrimental to donor goals.

5. Collect more long-term impact data on social marketing programs and introduce methodologies for accomplishing this goal. The current literature lacks sufficient long-term impact data about social marketing programs. As programs progress toward sustainability, it is important to revisit the market three to five years after the program is complete to measure impact. There is a need to focus on more than just sales; for example, evaluation criteria must be identified to determine how programs will be measured according to the dimensions outlined in the Sustainability Continuum for Social Marketing. Exactly how long-term effectiveness and sustainability will be measured, and how results will be attributed, are issues requiring further investigation.

6. Field test the Sustainability Continuum for Social Marketing presented in this paper. Additional program design and management tools are needed to strengthen the ability of donors to assess the long-term viability and resource requirements associated with social marketing programs. The PSP-*One* Sustainability Continuum for Social Marketing should be field tested in several countries to ascertain its usefulness in assessing programs' current sustainability and to determine strategies for strengthening technical, financial, institutional, and market sustainability elements of specific social marketing programs.

6. CONCLUSIONS

This paper has offered a conceptual framework in the form of the Sustainability Continuum for Social Marketing to analyze four dimensions of sustainability: technical, financial, institutional, and market sustainability. As SMOs grow and change, variables and indicators can be used to identify strategies for and assess progress towards sustainable components of a social marketing program. The concepts in this paper, along with the practical examples from a variety of SMOs worldwide, provide some general conclusions to guide future programming.

Sustainability will always involve tradeoffs. While programs are continuously challenged to improve sustainability, it is important for donors and SMOs to recognize that programs will need to make critical decisions that balance available resources with strategic priorities. Therefore, programs must be able to quantify what these tradeoffs are to make strategic decisions about programmatic impact. In addition, donors must understand that some activities designed to reach special audiences (through communication or distribution) will not be sustainable.

Sustainability requires a long-term plan. While not all programs will achieve 100 percent sustainability, every social marketing program can improve its sustainability and most probably can achieve results in multiple areas. To improve sustainability, however, SMOs need to have a sustainability plan. The indicators in this paper provide a starting point for SMOs to document their current status, assess areas where sustainability might be improved, develop projections of where they want to be in the short- and medium-terms, and implement program changes to achieve sustainability goals. Improving sustainability reporting also will require SMOs and donors to standardize mechanisms for reporting on programmatic indicators, costs, and financial sustainability.

Sustainability requires innovation. The programs that have achieved sustainability and those that are moving toward full sustainability are ones that have demonstrated innovation in different technical areas. SMOs must be willing to evolve and change to adapt to the needs of the market and to be responsive to consumers. The ability to innovate has contributed to the newer hybrid social marketing models that exist today. The commercial sector continues to demonstrate its interest and willingness to develop sustainable partnerships, and SMOs should identify and take advantage of these opportunities.

ANNEX A: IVORY COAST CASE STUDY

6.1 INTRODUCTION

L' Agence Ivoirienne pour le Marketing Social (AIMAS) was established in 2003 when the final steps in a long process of transitioning the SMO from an international NGO to a local NGO were completed. AIMAS was created in the context of a bilateral project the German development bank KfW funded, but it has diversified its funding base to include local commercial companies (Shell-Ivory Coast), the Global Fund to Fight AIDS, Tuberculosis and Malaria, and other NGOs that use its expertise in mass-media BCC. While still a long way from financial sustainability, the AIMAS experience is instructive on the possibilities and limits of creating national SMOs with a non-profit association status.

6.2 BACKGROUND

Prior to the creation of AIMAS, PSI had established and managed a condom social marketing program in the Ivory Coast since 1991. While PSI managed the program, a local non-governmental association, Ecoform Development (ECODEV) was involved as well. Under the terms of an early grant from USAID, it was expected that ECODEV ultimately would assume management and prime responsibility for the social marketing program. In 1995, however, the USAID mission closed. While the program had succeeded in increasing condom sales, the partnership with ECODEV had not evolved substantially and PSI still retained primary management responsibility. During the development of a project for follow-on funding with the government of Ivory Coast and KfW, a strategy was established to develop a joint venture between PSI and ECODEV. It was expected that by the end of the project, the joint venture would assume control of the social marketing operation.

Unfortunately, this joint venture failed to materialize as PSI and ECODEV could not agree on how to structure and manage the partnership. Moreover, ECODEV lost some key personnel and funding. Its executive director, who managed the organization like a family business, dominated the organization. Neither PSI nor KfW were confident that ECODEV could manage the social marketing operation.

In 2000, when KfW was developing a technical proposal for follow-on funding, it was decided that rather than continue to pursue the joint-venture strategy, KfW and independent consultants would develop an alternative strategy for improving institutional sustainability. After reviewing the legal options, the consultants recommended creating a new local association and transferring the social marketing operation to this entity. From 2001 to 2003, KfW consultants, the Ministry of Health, and PSI established and made the association operational through a process of recruiting local board members, drafting association statutes and by-laws, and holding a constitutive assembly. Given the multiple interests involved, it was agreed that KfW, the Ministry of Health, PSI, and ECODEV each would recruit and nominate founding members of the association. Once established, the association would follow its own by-laws for recruiting future members and officers, which would not require any involvement of KfW, the Ministry of Health, PSI, or ECODEV. Board members were chosen with a view toward recruiting a wide range of expertise in law, BCC, health economics, HIV/AIDS, family planning, and pharmaceutical marketing. Officers from other NGOs working with people living with HIV/AIDS were added as well.

The more challenging task of transitioning the social marketing project to AIMAS and rendering it functional occurred from 2002 to 2003. PSI planned to continue its work in the Ivory Coast after the transfer to AIMAS, so the issue was not merely AIMAS taking over upon PSI's departure. PSI's assets, personnel, and contracts had to be separated from those KfW funded. Steps were taken to manage the possible conflicts of interest between PSI as a potentially competing SMO and PSI as the provider of technical assistance to AIMAS. PSI and AIMAS drafted a memorandum of understanding that outlined the terms of collaboration and health areas where one or the other organization would be considered the lead. Prior to and following the separation of the two organizations, PSI often acted as the prime contractor on a number of grants where large shares of the funding (for film production and product social marketing) were subcontracted to AIMAS. AIMAS also has hired PSI for technical assistance.

Ivory Coast's civil war caused instability that negatively affected the evolution of the relationship between PSI and AIMAS. PSI's country representative, who had been involved in the creation of AIMAS, had to leave the country in September 2003; the international advisor who replaced him was evacuated in early 2005. While this situation hurt the quality of PSI's technical assistance to AIMAS, it also accelerated AIMAS's independence. From 2005 to the present, PSI has been acting as a subcontractor to AIMAS for social marketing and provides technical support in marketing, research, and product procurement.

6.3 SUSTAINABILITY STRENGTHS AND WEAKNESSES

6.3.1 TECHNICAL SUSTAINABILITY

AIMAS's staff has received considerable technical training in marketing, BCC, and market research. In addition to an experienced executive director, AIMAS has senior managers with considerable technical expertise as demonstrated in the use of quality research data to inform national campaigns. Sales of condoms and oral contraceptives on a per-capita basis are among the highest in the world and sales have continued to grow in spite of the civil war and departure of PSI's full-time technical advisor. AIMAS has added the female condom to its product range and is in the process of launching an injectable contraceptive. AIMAS efficiently uses commercial and pharmaceutical infrastructures and has become skilled in distribution. AIMAS also has a large role in managing the international tenders for its products. The staff is knowledgeable about KfW tender regulations and, although it uses PSI-prequalified suppliers, AIMAS manages the bulk of the administrative work related to the international tenders. PSI and AIMAS each receive a portion of the procurement fee KfW pays for commodity purchases.

One technical strength for AIMAS is its ability to produce quality mass-media materials on the basis of behavior change briefs with in-house audio and video studios and staff technicians. This resource has bolstered sustainability by generating program revenue through contract income (from organizations like Johns Hopkins Bloomberg School of Public Health Center for Communication Programs and UNFPA) and through the sale of videocassettes, which other organizations conducting AIDS prevention and family planning communication activities purchase.

AIMAS has not developed a strong capacity for market segmentation in its research or its product marketing. Demographic and Health Survey data is not analyzed by quintiles and no use is made of willingness-to-pay questions in AIMAS's research. Market segmentation has not been a priority for the Ivoirian government or KfW. The government seems content to let AIMAS maintain a near monopoly on the subsidized distribution of condoms. And, although AIMAS works with the government's reproductive health division, there is no segmentation strategy to have the government supply certain population groups and let AIMAS focus on other ones. AIMAS's marketing strategy for all products is to reach as wide a segment of the population as possible. As a result, there has been no research or analysis about increasing prices or introducing new products at different price points. This fact is somewhat surprising for condoms considering that commercial entrants have demonstrated that a sizeable segment of the population is willing and able to pay 300 to 400 CFA for three condoms rather than the 100 CFA AIMAS charges for four.

6.3.2 FINANCIAL SUSTAINABILITY

The main strategy AIMAS has pursued has focused on cutting costs and diversifying sources of contract income. Income from sales of videocassettes and other services the audio-visual studios provide has been the greatest area of entrepreneurship. On this level, AIMAS has made steady progress, but only when one excludes product costs. KfW has given AIMAS annual cost-recovery targets, but only for the local operational costs—not the cost of goods sold. In KfW's view, the social marketing program would be graduated when the donor and the government finance the subsidized products and the SMO is able to cover all of its other costs from product sales revenue. According to its executive director, AIMAS covers 84 percent of operating funds through product sales. He admits, however, that it will be

TABLE 8: AIMAS COST/REVENUE ANALYSIS

	2000	2001	2002	2003	2004
Sales (in units)	20,036,121	27,026,591	29,270,917	30,117,493	31,233,682
Total revenues	$347,222	$427,921	$672,749	$622,988	$652,784
Total program costs in USD	$895,295	$784,814	$1,393,982	$1,573,937	$1,020,967
Program costs in CFA	634,764,155 F	572,129,406 F	967,423,508 F	909,735,586 F	537,028,642 F
CFA/USD exchange rate	709	729	694	578	526
COGS	$581,047	$810,797	$995,211	$977,888	$1,638,831
Total costs	$1,476,342	$1,595,611	$2,389,193	$2,551,825	$2,659,798
Unit COGS	$0.03	$0.03	$0.03	$0.03	$0.05
Profit/loss (revenue – costs)	($1,129,120)	($1,167,690)	($1,716,444)	($1,928,837)	($2,007,014)
Excess of revenue over COGS	($233,825)	($382,876)	($322,462)	($354,900)	($986,047)
Percent recovery of program costs	38.78%	54.53%	48.26%	39.58%	63.94%
Self-sufficiency (percent recovery of total costs)	23.52%	26.82%	28.16%	24.41%	24.54%

Source: PSI Unit Cost Analysis 2004. Program costs are shown in CFA, which better reflects the true trends. Significant changes in the exchange rate from 2001 to 2004 distorted dollar values.

challenging to show continued progress without price increases. AIMAS will have to continually increase sales and either hold or cut costs. The organization has experienced two significant restructuring exercises leading to smaller staff sizes. Few opportunities exist to counteract increases in salaries, rent, and fuel, which contribute significantly to total operational costs. Moreover, AIMAS will have to maintain near monopoly status to continually increase sales, which is at odds with the objectives of market sustainability and contraceptive security.

Table 8 shows that although recovery of program costs has increased and local costs have been cut, the total cost recovery has been flat at around 25 percent. Because AIMAS loses money each time it sells a product, increasing sales generates a corresponding increase in the level of donor subsidy required.

AIMAS recently obtained authorization to increase the price of its package of four condoms to 125 CFA (a 25 percent increase), which was planned for late 2006. In real terms, however, even the new price is below the 100 CFA charged in 1991 (since then there have been years of inflation and a 100 percent devaluation of the currency). Although the executive director realizes that true financial sustainability will require pricing products above their COGS, he is reluctant to pursue this strategy aggressively. AIMAS already attracts attention from the fiscal authorities, which are wary of an association operating commercial activities. The Ministry of Health and KfW are not interested in any strategies that would limit the ability of the project to serve the poorest consumers.

6.3.3 INSTITUTIONAL SUSTAINABILITY

For an organization that is only 3 years old, AIMAS has achieved a remarkable degree of institutional sustainability. The founding board members are still active and there has been little turnover. They meet four to five times a year and approve AIMAS's annual operating budget and major strategic decisions. Despite having no prior allegiance to AIMAS, these board members have demonstrated their commitment to the organization. The only compensation board members receive is per diem and transport payments to attend board meetings. The president represents AIMAS at major events and with donors.

According to the president of the board, its focus has been on building and maintaining the confidence of donors and the government. In a country where corruption is rampant and most national NGOs are small and weak, AIMAS has gone out of its way to maintain strong internal control systems and transparent management of its finances. The board has a paid commissaire aux comptes, who reviews AIMAS's finances annually for compliance with local laws. KfW uses Deloitte and Touche to conduct annual audits and Price Waterhouse staffs the internal controller for AIMAS (who sits full-time in AIMAS's offices and approves every purchase order and check payment). This strategy has reduced AIMAS's reliance on a single donor because it has been able to get grants from donors beyond KfW; however, it has not made AIMAS less donor-dependent.

As an association AIMAS is not subject to income taxes, but is still subject to import duties and other user taxes. The statutes for local associations do not recognize commercial activities as legitimate functions of an association. Therefore, the regulatory framework in Ivory Coast may be an inhibiting factor for associations pursuing commercial strategies in support of sustainability.

6.3.4 MARKET SUSTAINABILITY

The condom market has shown positive signs of market sustainability over the past five years. Branded promotion of the socially marketed condom was curtailed substantially in 2000 to 2001. Despite this reduction, sales have continued to increase. Moreover, commercial entrants from Indian-based manufacturers have gained market share by offering colored and flavored condoms at a slight increase of AIMAS's prices. High-end brands also are found in the pharmaceutical network throughout the country, but the mid-priced brands are available in fast-moving consumer goods outlets in all of the major towns. Clearly, there is an established base of condom consumers. Although AIMAS's market share is too low to qualify as a monopoly, at 70 to 80 percent it is still above what one would consider a healthy market. From this standpoint AIMAS's dominance through its low price may be a barrier to attracting new commercial entrants.

The same is not true for the market for oral contraceptives. The pharmaceutical sector distributes seven to 10 different brands, but the overall market has been flat. AIMAS's *Confiance* brand has sold well, to the point where procurement has struggled to keep up with demand. Some parts of these increases are probably from commercial-brand users and former public-sector users as the public sector has struggled to maintain its reproductive health program. A survey conducted in 2004, however, showed that 80 percent of *Confiance* users were new users of oral contraceptives. Contraceptive prevalence has remained stable at a low level (estimated at 7 percent for modern methods).

The civil war and subsequent economic instability are negative factors in market sustainability. Even without the existence of generalized subsidies, it is not clear that any new commercial companies would introduce new products into the Ivory Coast market at this time.

6.4 LESSONS LEARNED

Creating an institution may be a viable alternative to strengthening an existing one.
The typical approach to institutional sustainability is to choose an indigenous organization with the capacity to assume program activities, invest in organizational strengthening to address its weaknesses, and gradually transfer management responsibilities. In the case of AIMAS, after PSI and ECODEV failed to form a joint venture, KfW did not feel that ECODEV or the alternative indigenous NGOs in the Ivory Coast had the capacity to justify such an approach. In this case KfW chose to artificially create an indigenous organization by leveraging the staff with proven skills and commitment to social marketing together with the assets KfW funded to build an institutional structure around those people and skills.

The approach to creating this artificial structure was in itself innovative. In recruiting board members for the AIMAS association (which was the first critical step in creating AIMAS) KfW, PSI, and the Ministry of Health recruited individuals who brought a range of knowledge and expertise in public health, communication, NGO management, pharmaceutical detailing, law, reproductive health, and marketing. This combination of expertise reflected the multidisciplinary nature of social marketing as well as ensuring a diversity of perspectives and experiences. The recruitment process also ensured that board members were motivated by their own beliefs in the social marketing mission and that one or two champions who saw the organization as their own empire would not dominate it.

Revenue generation is at least as important as cost cutting as a financial sustainability strategy.

It is difficult to tell at this stage whether AIMAS will reach 100 percent cost recovery for local program costs without significant price increases. After two reductions in staff and budget cutbacks, AIMAS's progress in improving cost recovery has slowed. At some point, cost cutting stops improving efficiency and merely reduces the impact and performance of the organization. Replacing vehicles, losing talented staff because of a lack of growth opportunities, and neglecting product promotion all take a toll on the long-term viability of an SMO and its products. Moreover, AIMAS will continue to face pressure from its multiple donors to do more socially beneficial work, which also makes financial sustainability more difficult to achieve. At this stage AIMAS needs to generate more revenue per product sold to improve financial sustainability. Increasing revenue purely by increasing sales is harder to do in a mature market and it motivates AIMAS to crowd out the commercial sector. A price increase for one of AIMAS's market segment could lead to greater sustainability for AIMAS and greater efficiency and contraceptive security in the overall market.

The non-profit association as a legal basis for the SMO may be a handicap in achieving true sustainability.

As noted previously, the laws governing associations are not ideal for SMOs engaging in commercial activities. This climate leads to suspicion on the part of authorities and is a barrier for AIMAS, which must simultaneously achieve important social objectives and operate like an efficient commercial entity. AIMAS might explore the strategy PSI Romania uses, which effectively split into two legal entities covering its commercial activities and its social ones (see Annex C: Romania Case Study).

Even in a small market, international and national NGOs can play complementary roles that enrich the contribution of social marketing to public health.

The Ivory Coast is a small country, and its ongoing instability creates a difficult operating environment for SMOs. Typically, only countries with much larger populations, such as India and Pakistan, have more than one large SMO. The health needs, however, are significant, so coexistence between PSI as an international SMO and AIMAS as a local one is not only possible, but also it could be beneficial to public health in the Ivory Coast. AIMAS has been the larger, better-resourced SMO since 2003, but there has been complementarity between the two organizations. PSI has subcontracted to AIMAS to take advantage of its distribution infrastructure and audio-video studios, which has allowed PSI to obtain these services at lower costs while providing additional income to AIMAS. Donors, such as KfW and the Global Fund to Fight AIDS, Tuberculosis and Malaria, have understandably given priority to AIMAS as an indigenous organization, but PSI has mobilized donor funding that AIMAS would not have had access to. Moreover, PSI has been able to draw on its worldwide experience in social marketing of counseling and testing services and other areas to introduce new approaches to the Ivory Coast and to AIMAS. PSI and AIMAS also have competed for donor funding recently, but it has not prevented ongoing collaboration.

ANNEX B: PERU CASE STUDY

6.5 INTRODUCTION

After four decades of support to the Peruvian Ministry of Health and public and private organizations, USAID plans to phase out population funding to Peru over the coming five years. USAID/Peru ended contraceptive commodity donations to the Ministry of Health in 2004, but it continues to provide support to the public-sector family planning program in strategic areas. As part of its phase-out strategy, USAID/Peru is committed to strengthening the role of the private sector in the provision of quality, affordable reproductive health products and services. APROPO is a Peruvian NGO founded over 20 years ago. Its mission focuses on advocating for reproductive health and family planning rights. APROPO has established itself as a leader in social marketing and BCC. APROPO launched its social marketing program in 1993 and also implemented several national family planning communication campaigns with support from USAID/Peru. In 1998, however, APROPO stopped receiving support from USAID programs and did not receive any major donor support until 2003. Nonetheless, APROPO was able to sustain the large majority of its social marketing activities as well as specific advocacy and communication initiatives. Despite APROPO's success, the organization faces issues it must overcome if it is to continue to expand. Since 2003 APROPRO has collaborated with USAID partners on initiatives that are complementary to its core social marketing and communication activities, particularly in the area of youth and HIV and AIDS prevention. As part of its phase-out strategy, USAID/Peru will provide strategic financial and technical support to APROPO to address these issues.

6.6 BACKGROUND

APROPO launched its first social marketing condom brand, *Piel*, in 1993. With the second highest market share (33 percent), *Piel* is by far APROPO's leading product. APROPO supports three different presentations of *Piel*. APROPO also introduced the *OK* condom, relaunching it in 2003 to reposition it as an innovative brand targeted to sexually active adolescents. Since then, APROPO has introduced other reproductive health products, including its own intrauterine device (IUD) brand, pregnancy tests, and sexually transmitted infection (STI) treatment kits.

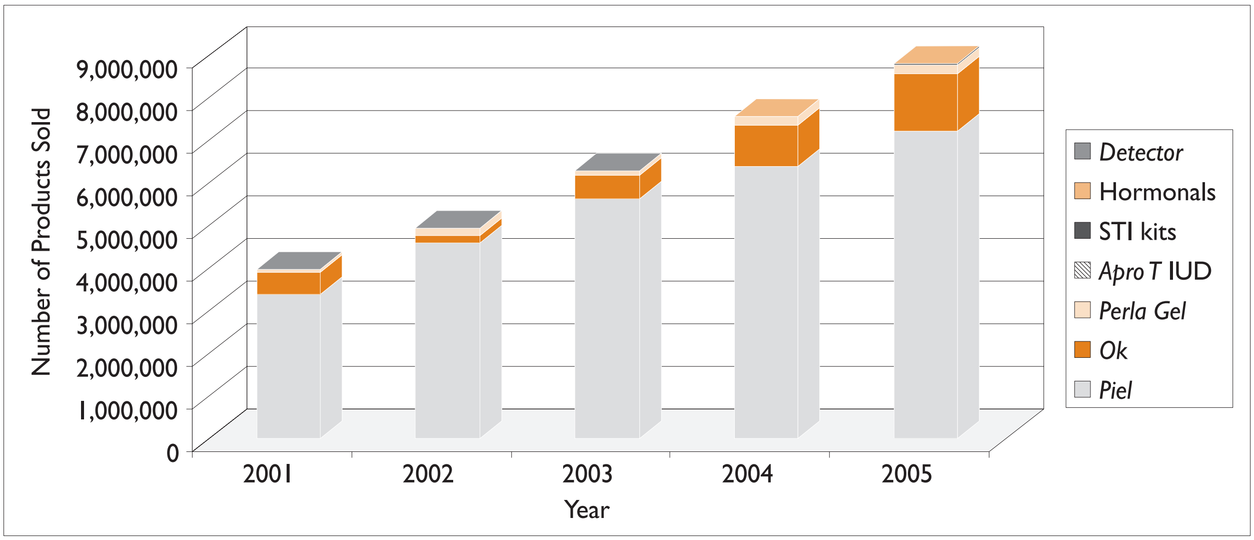
6.7 SUSTAINABILITY STRENGTHS AND WEAKNESSES

6.7.1 TECHNICAL SUSTAINABILITY

APROPO has demonstrated that it has many of the technical skills required to sustain a product social marketing initiative. Since the beginning of its condom social marketing program, APROPO purchased commodities for its condom brands through international procurement mechanisms. This effort provided it with valuable experience for procuring condoms and other products. APROPO also has introduced the contraceptive gel, *Perla Gel*, which has experienced moderate growth. APROPO, however, has had limited success in identifying profitable new products beyond these over-the-counter contraceptives.

As seen in Figure 1, APROPO's *Apro T CopperT* IUD has had limited acceptance, mostly due to the high level of donated IUDs available in the public sector. In 2004 APROPO introduced two dedicated STI treatment products, *Efectimax* and *Efectiplus*, in collaboration with a small donor-funded pilot project (limited to 10 cities), but these products have not achieved national distribution. APROPO also distributes two hormonal contraceptives, *Microgynon* and *Mesigyna*, purchased directly from Schering Pharmaceuticals. Schering, however, also works with large national and regional distributors, effectively restricting APROPO's sales territory to a small network of local distributors in low-demand areas.

FIGURE 1. SALES OF APROPO SOCIAL MARKETING PRODUCTS



6.7.2 FINANCIAL SUSTAINABILITY

APROPO has achieved financial self-sufficiency, largely attributed to the revenues generated through its social marketing program. These efforts (which generated over $1 million in revenues in 2005) have enabled the organization to continue its core social marketing and communication activities. In 2006 APROPO had a target of reaching 113 percent financial self-sufficiency (based on no external support). APROPO is improving its cost-accounting system to allow for better tracking of product costs, but still requires some support in cost analysis for its marketing program. Although the organization is able to cover its management, operations, marketing, and sales costs, its working capital is limited, which affects operations that require a large outlay of cash (such as product procurement).

6.7.3 INSTITUTIONAL SUSTAINABILITY

APROPO's mission is also linked to its ability to continue advocating for reproductive health rights. APROPO's role in ensuring access to accurate, unbiased information on reproductive health issues is critical to this mission and is supported by revenues generated through the social marketing program. These funds (approximately $80,000) support APROPO's volunteer program, its advocacy efforts with the media, its counseling hotline, and other institutional communication materials. While these activities provide an important resource for supporting healthy sexual and reproductive behaviors at the individual level, the available resources are not sufficient to influence major advancements in knowledge and practice on a large scale. APROPO recognizes this weakness and has become a strong advocate for a comprehensive information campaign on healthy sexual and reproductive behaviors. It emphasizes that there has been no wide-scale effort by the Ministry of Health or any other NGO in this area for more than 10 years.

6.7.4 MARKET SUSTAINABILITY

APROPO has played an important role in building a vibrant commercial condom market that now includes 45 different products. APROPO's *Piel* is priced at 2.50-3.0 Peruvian Nuevo Sol (PEN) per three-pack (approximately 1 USD). APROPO's other condom product, *OK*, has been positioned as an affordably priced condom made for sexually active young adults. *OK* is priced at the same level as the overall market leader, *Gents,* (1.80-2.0 PEN for a three-pack). In addition, there are several commercial brands that are priced even cheaper than *OK* and *Gents* (such as 1.5 PEN for a three-pack) but they represent an insignificant portion of the market. APROPO is also interested in launching another condom brand, priced below *OK*, to compete in the lower-priced condom category. There is little evidence, however, that a lower-priced condom is needed and there is concern that a lower-priced brand would pull users away from existing brands. In addition, introducing a new brand would require a significant investment to establish it in the marketplace, which could hinder APROPO's sustainability.

6.8 LESSONS LEARNED

In the past NGOs have faced difficulties in identifying sources for hormonal products to be marketed as their own commercial brands. Generic manufacturers, however, are providing new opportunities for NGOs to develop proprietary hormonal products.
While APROPO has been successful in procuring its own condom and over-the-counter products, it has had limited success with other ethical products. APROPO's partnership with Schering Pharmaceuticals allows it to sell *Microgynon* and *Mesigyna* through its local distribution network. But the small margins on these products and the limited sales territory available to APROPO do not provide any major benefit to the organization. And it has no control over marketing decisions related to the product. APROPO has concluded that there is limited benefit to distributing contraceptive products that it does not own. As a result APROPO is investing in new partnerships with manufacturers of generic hormonal contraceptives and considering introducing its own one-month injectable.

Programs with limited margins of financial sustainability may face long-term erosion of their competitive standing and limited growth.
As mentioned previously, although the organization is able to cover its management, operations, marketing, and sales costs, its working capital is limited, which affects operations that require a large outlay of cash. This issue has affected APROPO's ability to procure products in some instances and, for example, has caused stockouts of some products. In addition cash-flow limitations restrict its ability to invest in increased quantities of products to facilitate market expansion. Finally, APROPO's current market share is largely the result of past marketing campaigns that were donor supported. The NGO faces the challenge of building these brands (which may include periodic product renovations, advertising campaigns, and regular promotions) in the absence of any donor support. A one-time grant by USAID/Peru will be invested in repositioning both condom brands, a strategy recent market research supports. In the future, however, APROPO will need to generate these marketing funds from its own operating budget.

While social marketing programs can sustain brand-related marketing activities through product revenues, it is more difficult to sustain large-scale behavior change interventions. APROPO's experience demonstrates that as its program matured, it has been able to achieve a level of sales revenue that allows it to sustain its brand-related market costs. APROPRO also has been able to use brand revenues to sustain specific information and communication needs. The level of funding generally required to sustain large-scale BCC, however, is not sustainable through product revenues; it usually requires external support.

The decision to introduce lower-priced brands into markets that already have self-sustaining social marketing products needs to be evaluated carefully.
NGOs often are interested in continuing to introduce lower-priced products into markets where other social marketing brands already are self-sustaining—even when there is limited evidence that product price is an issue or, as in the case of APROPO, where other entities already serve its potential product niche. If the objective of introducing a new low-priced product is to serve low-income groups, alternative strategies for reaching the poor that don't compete with sustainable products, such as vouchers, should be considered. In addition, NGOs looking to strengthen their financial sustainability through new product launches should look beyond mere market potential and opt for profitable products that can increase net income for the organization.

ANNEX C: ROMANIA CASE STUDY

6.9 INTRODUCTION

From its launch in 1997, PSI Romania has focused on a growing youth market and the reproductive health needs of this population. At inception, the vision of PSI Romania was to access donor funding and use highly subsidized product social marketing to prevent HIV infection and unwanted pregnancies among Romanian youth. Over time PSI Romania has became more focused on high-risk groups for HIV prevention. Its product range was restricted to condoms after it concluded that selling oral contraceptives added no social value to the private commercial sector. When it became apparent that Romania would enter the European Union, PSI Romania developed an accelerated strategy for ensuring core activities would continue without donor funding. Although PSI Romania continued to receive USAID and other donor funding from 2002 to 2004, the sustainability strategy led to improved cost recovery by 2004. This strategy involved more aggressive pricing, introduction of more profitable product lines, tighter cost controls, and better tracking of COGS.

6.10 BACKGROUND

Contraceptives were banned in Romania until the fall of Nicolae Ceausescu's regime in 1989. While Ceausescu had a pro-natalist policy, in practice births often were averted through abortion. When PSI began working in Romania, there was significant need for awareness raising and destigmatization related to condoms.

These early efforts were successful in creating the conditions for a viable commercial market for condoms. PSI went from being the pioneer in 1997, with dominant share in a small commercial market, to being one of several players in the current market, having an estimated market share of 26 percent. The largest of the commercial manufacturers, Durex, has market share for its brands roughly equal to PSI's *Love Plus* condoms. Both the current and former PSI country representatives acknowledge that PSI would not be able to create a niche for itself in Romania if it were entering the country today. The acceptance of PSI's position as an SMO and the *Love Plus* brand are only possible today because of investments made in brand and organizational equity nearly ten years ago.

Given its proximity to Europe and its higher level of development, the health needs and the opportunities for social marketing in Romania are more narrowly defined than in other countries. This environment was a challenge for PSI, whose usual approach involves high subsidization of a range of health products offered to a large population segment with numerous and significant unmet health needs.

Besides condoms, the only other product PSI Romania sold was an oral contraceptive, which was discontinued at the end of 2004. PSI was able to maintain sales of oral contraceptives on an unsubsidized basis and the excess of revenues over operational costs contributed to PSI Romania's financial sustainability. PSI Romania, however, felt that the financial contribution was not commensurate with the effort required and its product was not increasing access or improving affordability for a significant part of the Romanian population. PSI was selling through the same channels as the commercial manufacturers and at similar price points.

6.11 SUSTAINABILITY STRENGTHS AND WEAKNESSES

6.11.1 TECHNICAL SUSTAINABILITY

PSI Romania has technical capacity within the organization or available locally to conduct sustainable social marketing. The program's communication efforts are researched, targeted, and professionally produced. During an internal evaluation, staff identified improving BCC and marketing as areas where more capacity building was required. PSI Romania has made effective, if limited, use of market research. Notably it is one of the few PSI programs to use willingness-to-pay data to inform decisions about increasing product prices. PSI places a premium on health impact and has been reluctant to raise prices for fear of reducing low-income groups' access to products and services. In the case of Romania, the need to sustain the social marketing program outweighed this concern and a rigorous, evidence-based approach was taken to ensure that even at higher prices, the most vulnerable target groups would still be willing to pay for the program's products. PSI Romania uses commercial infrastructure for distribution and it has access to qualified research and advertising agencies. In the area of generic BCC, PSI has developed best practices for interpersonal communication to improve outreach to high-risk groups.

It is unclear to what degree PSI Romania's technical sustainability is dependent on its relationship with PSI. PSI Washington employs a full-time expatriate of the organization and a deputy director who has primary responsibility for implementing the USAID project. According to the current country representative, PSI is training a Romanian deputy director with the intention of increasing his management responsibilities, but there is no timetable for transferring all managerial and technical in-country staff positions to Romanians.

6.11.2 FINANCIAL SUSTAINABILITY

In 2002, when it was clear that Romania would enter the European Union and USAID would withdraw, PSI Romania decided through a strategic planning exercise that the prospects for sustaining the social marketing program primarily through donor funding were limited. The organization decided that the product social marketing component could become self-sustaining and even provide enough excess revenue to support small-scale generic behavior change activities. The generic behavior change activities then could be complemented with other local donor resources through corporate social responsibility funding or small government grants. To realize this strategy, PSI Romania worked to increase revenues from product sales by marketing more aggressively and introducing colored, flavored, and studded lines of condoms. In the process of reviewing the condom sourcing procedures, PSI Romania found that it could better ensure quality and cut costs by packaging condoms in-house rather than procuring condoms that were prepackaged. The realization of the strategy is reflected in the improvement shown in the following table.

TABLE 9: PSI ROMANIA COST/REVENUE ANALYSIS

	1999	2000	2001	2002	2003	2004
Sales (in units)	1,837,296	2,929,331	4,349,527	4,612,538	8,422,786	9,692,030
Total revenues	$111,668	$200,000	$321,662	$347,276	$692,590	$1,169,343
Total program costs	$624,258	$414,701	$712,720	$355,470	$543,995	$1,115,427
COGS	$111,079	$162,870	$241,833	$173,534	$340,506	$508,047
Total costs	$735,337	$577,571	$954,553	$529,004	$884,501	$1,623,474
Unit COGS	$0.09	$0.06	$0.06	$0.04	$0.05	$0.04
Per unit revenues	$0.06	$0.07	$0.07	$0.08	$0.08	$0.12
Profit/loss (revenue – costs)	($623,669)	($377,571)	($632,891)	($181,728)	($191,911)	($454,131)
Gross margin	$589	$37,130	$79,829	$173,742	$352,084	$661,296
Self-sufficiency (percent recovery of total costs)	15.19%	34.63%	33.70%	65.65%	78.30%	72.03%

Source: PSI Internal Unit Cost Analysis 2004. COGS = product, packaging, testing, delivery, clearance, and labor for packaging. Selling and marketing costs are included under program costs.

There has been a strong and steady increase in gross margin, which has nearly doubled the last three years. Prices have increased in dollar terms to twice the level as in 1999, even while sales have grown at a significant rate. Good cost management contributed to a steady increase in self-sufficiency (the percentage of total costs recovered through sales revenue.) In 2004, however, program costs not related to COGS increased sharply, reducing the level of self sufficiency to 72 percent (from 78 percent in 2003). Much of the increase in program costs in 2004 was related to up-front marketing costs (campaign and packaging development and production) for the introduction of the new product variants.

The data in Table 9 combines all costs related to the male condom programs, including the commercial *Love Plus* operation, as well as the targeted behavior change activities to increase condom use. Some of the increase in program costs is attributable to new generic behavior change projects, which, by their nature, generate significant costs with minimal contribution to increasing revenues. If the commercial side of the business were accounted for separately, it would have shown a profit. As of 2003, PSI Romania could have fully covered all product, selling, and management costs from product revenues.

6.11.3 INSTITUTIONAL SUSTAINABILITY

From the beginning of the social marketing program, PSI Romania was obliged to create a separate commercial entity to be able to sell products and operate in commercial markets. This commercial entity (Social Marketing Solutions) has managed all of the commercial operations of buying and selling condoms and coexisted with PSI Romania, which is registered as an international non-profit organization. When Social Marketing Solutions (SMS) generates a profit, it systematically contributes all of it to the non-profit identity of PSI Romania to support generic BCC targeting high-risk groups for HIV. The commercial entity pays customs, value-added, and income taxes to the Romanian government, but the systematic donation of profits to PSI Romania helps to reduce this tax burden.

As the non-profit activities have become more dependent on the commercial entity and SMS has had to become more professional to compete in a thriving market, one of the challenges has been to maintain this dual identity. Management has had to remind staff and stakeholders of how the two identities contribute to the same social mission. PSI Romania is not selling condoms just to make a profit; it is selling condoms to serve a need and generate revenue to finance behavior change work that is complementary to the sale of condoms and helps control the spread of HIV.

Reducing the dependence on PSI for management and governance could further strengthen institutional sustainability. The necessary capacity building of the staff seems well underway, but no real transfer of responsibility has occurred and no local governance structure is in place.

6.11.4 MARKET SUSTAINABILITY

Romania is a country of over 20 million people with rising incomes that are already above the poverty level. The condom and contraceptive markets have reached a level of commercial sustainability based on a sizable segment of the population that has both the ability and willingness to pay for condoms and other contraceptives. PSI Romania has had to maintain a competitive edge in the marketplace and offer a wider range of product variants as the preferences of Romanian consumers have changed over time. This strategy has allowed PSI Romania to keep pace with Durex, the other major market leader. While operating as a commercial entity, PSI has stayed relevant to its social mission by keeping its prices below most other commercial entrants at nearly one half of Durex's prices. Even as condom prices have risen, PSI estimates that the total market has grown from 18 million units in 2000 to 33 million units in 2005.

6.12 LESSONS LEARNED

Becoming commercially sustainable does not mean abandoning socially beneficial activities or failing to serve high-risk groups.

As in many SMOs, there was initial resistance to increasing prices out of fear of losing target groups as consumers. Despite those concerns PSI Romania relied on its research data and proceeded with increases. Thus far, there is no evidence that target groups with lower incomes have reduced their condom use because of an inability or unwillingness to pay. Of course, it can be argued that consumers in wealthier countries have a greater willingness to pay. From that standpoint, Romania, with a gross national income per capita of $6,480, offers greater opportunities for financial self-sufficiency than countries in sub-Saharan Africa. Nevertheless, the assumed automatic tradeoff between higher prices and lower sales has not materialized and the increase in prices may have even helped improve the perception of quality for some Romanian consumers.

Although single-product SMOs are more vulnerable to market forces, product social marketing may become financially sustainable even when the organization is selling only one product.

Although product diversification allows an organization to spread its administrative and distribution costs across more business areas, if an operation is managed efficiently, even single-product operations can fully recover their costs. PSI Romania dropped its oral contraceptive because it felt this product added nothing to the market and that simply maintaining it would be a distraction from the more profitable and beneficial condom line of business. PSI Romania, however, did diversify within a product class. Adding product variants (colored and flavored condoms) with higher margins has contributed to sustainability by increasing new revenue-generation opportunities.

Legal separation of commercial and social functions of SMOs may be the best strategy for pursuing financial sustainability while adhering to local laws and regulations.
As is the case in other countries, the Romanian regulatory environment necessitated the separation of the commercial and social functions into distinct legal entities. This requirement seems to have guided management into creating different corporate cultures and different, but complementary, corporate missions. PSI Romania has created its own sustainable donor. The organization also has avoided the pitfalls and regulatory risks associated with maintaining a non-profit legal identity while becoming more aggressive in pricing and marketing its products. Even where it is not required, separating the commercial and social functions of an SMO may enhance sustainability efforts on the commercial side while providing clearer focus to the social activities.

Many SMOs are reticent to pursue aggressive pricing on socially marketed products out of fear that they will be accused of abusing their NGO status or attract unwanted attention from the authorities. By managing Social Marketing Solutions more like a commercial operation, PSI Romania was able to remain compliant and achieve financial sustainability for that line of business. When all condom activities are viewed in the aggregate, there is still donor subsidy, but the core function of selling and promoting branded condoms is no longer dependent on donor funding. Fully sustainable social marketing operations can and probably should seek donor funding for social activities. Indeed, the financial self-sufficiency from product sales provides a measure of freedom for the SMO to be more selective in accepting grants. Moreover, because many fixed costs are covered from sales, the SMO can conduct social activities at a lower cost to its donors.

Pursuing financial sustainability may create concerns about the clarity of the mission.
While pursuing financial sustainability through the pursuit of entrepreneurial revenues, it is critical to maintain the organization's focus on the social mission. One should always be asking, "What are we (the SMO) doing that the commercial sector would not do?" PSI Romania has been able to operate without crowding out the commercial sector. Moreover, the commercial sector would not have made the contribution to public health through targeted BCC that PSI Romania has made. Because PSI Romania has a dual identity, staff working on the commercial side of the operation may overlook the need to achieve social impact and staff working in social activities may forget the need to remain financially sustainable. An organization with such a "double bottom line" requires strong leadership to balance commercial and social objectives and communicate the vision to staff and stakeholders.

ANNEX D: NIGERIA CASE STUDY

6.13 INTRODUCTION

Marketing commercially sustainable products is more likely to succeed in middle-income countries with large populations and growing contraceptive prevalence rates. In much of sub-Saharan Africa, where living standards and demand for modern methods remain lower than anywhere else, the public sector or donor-supported SMOs typically ensure product supply. While much attention has been given to building technical and institutional capacity in the region, efforts to build market sustainability have been limited. The Society for Family Health (SFH), a Nigerian NGO, is one of the first donor-supported SMOs to experiment with marketing commercially sustainable brands. Although it is too early to comment on the fate of these brands, some lessons can be drawn from the process of engaging and partnering with commercial suppliers in Africa.

6.14 BACKGROUND

Nigeria is one of the most promising markets in Africa. Twenty percent of the total population of sub-Saharan Africa lives in Nigeria and the country's urbanization level (48 percent) is favorable to commercial distribution networks (Population Reference Bureau 2005). Although the use of modern contraceptive methods in Nigeria is low,[1] it is among the highest in West Africa (ibid). The majority of oral contraceptive users obtain their method from the private sector and because 63 percent of oral contraceptive users and intenders belong to the two highest wealth quintiles, it is likely that many of them can afford prices higher than what subsidized social marketing products charge. The prices of commercial condoms and oral contraceptives available in pharmacies at the end of 2005, however, were found to be several times more expensive than the social marketing products (Private Sector Partnerships-*One* 2005). The absence of mid-priced commercial contraceptive brands was in sharp contrast with the widespread availability of affordable pharmaceutical products (mostly generic) in other therapeutic classes. As a result, contraceptive supply in Nigeria overwhelmingly consisted of free and subsidized products provided through the public sector and SFH's social marketing program.

SFH began to have a major role in ensuring contraceptive availability in Nigeria in the 1990s. Political instability and sharp reductions in foreign funding contributed to frequent contraceptive stockouts in the public sector, increasing the country's dependence on social marketing products. By 2005, SFH found itself supplying 80 percent of the contraceptives used in Nigeria, including condoms, oral contraceptives, injectable contraceptives, IUDs, and emergency contraceptive pills.

SFH's rapid growth was supported by a steady influx of donor funds (mostly from USAID and DFID) and facilitated by its affiliation with PSI. Partnering with an international organization allowed SFH to access technical assistance and develop its institutional and technical sustainability. Prompted by donors' interest in increasing market sustainability and a desire to segment its own consumer base, SFH also began to work with PSI and the PSP-*One* project to introduce commercial products in Nigeria.

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[1] Recent estimates of the contraceptive prevalence rate for women15 to 49 years old are 8.6 percent (modern methods) and 15.3 percent (any method) (Population Reference Bureau 2005).

6.15 INTRODUCING MID-PRICED CONTRACEPTIVE BRANDS

6.15.1 PARTNERSHIP WITH A COMMERCIAL CONDOM SUPPLIER

Launching a commercially sustainable condom brand in Nigeria was seen as a way to decrease the country's current and future dependence on donated condoms. Between 1999 and 2004, SFH reported steady increases in condom sales that culminated in more than 100 million condoms sold in 2005. This figure was expected to double in the next three years, raising concerns about the sustainability of Nigeria's product supply.

To capture a sizable share of the market (and reduce the need for subsidized commodities), the new condom brand would have to be affordable to most Nigerian users. It also would have to generate enough income to support sales and marketing activities without relying on donor funds. Rather than procure commodities and create a new brand at a substantial cost to the program, SFH and PSI opted to introduce an existing commercial brand in partnership with a major international supplier.

Negotiations with prospective partners began in 2004 and often broke down because commercial condom marketers had little faith in a mid-priced condom targeted at the middle class in Nigeria. Manufacturers also were worried about losing control of their brand image by selling their product through an SMO dedicated to serving the poor. Persistence and compromise, however, led to an agreement between SFH and Ansell, a French condom manufacturer, granting the SMO exclusive distribution rights to the *Lifestyles* condom brand.

SFH, PSI, and Ansell signed the distribution agreement, which took nearly two years to negotiate, in February 2006. The launch of *Lifestyles*, a colorful brand with five line extensions, was planned for summer 2006. Its retail price would be 120 Nairas (about $1.00), approximately three times the price of *Gold Circle*, SFH's socially marketed condom brand.

6.15.2 THE PSP-*ONE* ORAL CONTRACEPTIVE PROJECT

One of the PSP-*One* project's goals is to explore market-building opportunities in donor-dependent countries, particularly in sub-Saharan Africa. In November 2005 the project assessed the feasibility of increasing the availability of commercial oral contraceptives in Nigeria. The assessment team considered reproductive health indicators and trends, the presence of potential local partners in the commercial and NGO sectors, and the average prices of pharmaceutical products (as an indication of ability and willingness to pay).

PSP-*One* also analyzed different supply options, including manufacturing sources and distribution approaches. Following the assessment, PSP-*One* initiated discussions with possible suppliers in various countries, including research and development[2] and generic manufacturers. In its search for a suitable oral contraceptive product for Nigeria, PSP-*One* made the following assumptions:

- the product needed to be affordable to a large middle-income group (the desired consumer price was estimated between $1.00 and $1.50)
- the brand would receive donor support for market-building activities for a maximum of three years

[2] This term refers to essentially Western-based international pharmaceutical companies.

- revenue generated by product sales would cover the cost of marketing, distributing, and promoting the brand beyond that period

Profit-and-loss analyses indicated that a brand sold at a retail price of about $1.25 would need to achieve sales of 500,000 units after three years, or roughly 10 percent of the sales of subsidized oral contraceptives SFH marketed. USAID support for the brand would be about $200,000 in the first year and gradually decrease as sales income was generated and used to support marketing activities.

Several manufacturers expressed interest in the oral contraceptive project in Nigeria, including major research and development companies and generic producers in India and Thailand. The project found generic manufacturers to be more inclined to adopt a mid-priced strategy. Most research and development suppliers raised objections about the suggested consumer price, arguing that their brand image and corporate reputation could justify higher prices and profit margins. Some manufacturers also had self-imposed boundaries between their commercial and so-called institutional business. The idea of a mid-priced commercially sustainable brand turned out to be somewhat incompatible with the research and development approach to the contraceptive market: high-margin brands in the commercial sector and low-cost commodities sold through procurement contracts with donors and governments.

In contrast, generic manufacturers in India and Thailand demonstrated a willingness to market their products at much lower prices than research and development companies. While these companies stressed that they would be unable to provide much marketing support, they tended to display a natural inclination to adopt a high-volume, low-margin strategy in Nigeria. PSP-*One* drew from a variety of sources to assess the reliability and capacity of potential generic manufacturers and selected an Indian hormonal producer (FamyCare) with a respectable track record of supplying oral contraceptives to the Indian government and UNFPA .

As it considered different supply sources around the world, PSP-*One* also investigated potential partners in Nigeria. A suitable local distributor was needed that could guarantee wide access to low-income consumers and demonstrate a commitment to the project. After several months of research and negotiations, PSP-*One* chose to broker and support a partnership between SFH and FamyCare. Working with SFH, PSP-*One* supported consumer research to assess the acceptability of a product made in India and pre-tested various brands and packages among potential users.

PSP-*One* provided technical assistance to SFH in developing and negotiating a contract that would provide exclusive distribution rights to SFH for a new low-dose oral contraceptive formulation not available at that time in Nigeria. The three-way partnership between PSP-*One*, SFH, and the manufacturer was described in a memorandum of understanding (MOU). In the MOU, PSP-*One* pledged to support market-building activities for the new oral contraceptive (as long as it remained priced affordably) for three years. SFH committed to reinvesting all sales income into marketing and sales, allowing for the eventual graduation of the brand from donor support. The manufacturer promised to register the brand in country and grant exclusive distribution rights to SFH for five years. The MOU and distribution contracts brokered by PSP-*One* were signed in February 2007. The new brand, *Locon*, will be offered as a lower-dose oral contraceptive formulation [3] sold at a price that many Nigerian users can afford.

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[3] The *Locon* formulation is a generic version of Wyeth's *Loette* (levonorgestrel 100 mcg and ethinyloestradiol 20 mcg tablets), which is one of the best-selling combined oral contraceptive brands in developed markets.

6.16 LESSONS LEARNED

In a highly subsidized context, achieving market sustainability is a gamble.

Market sustainability suggests that products can be sold at cost-recovery prices while remaining affordable to a large segment of users. Commercial brands have an important part in ensuring market sustainability (Sine 2002) and, in many countries, many such brands are affordable to average users. In a highly subsidized context, however, commercial companies may be more motivated to sell high-priced brands to a small group of users with little sensitivity to price. Companies that opt for this strategy (typically Western-based research and development pharmaceutical companies) attempt to position their brands as being better and safer than lower-price brands. In the past, partnerships have been developed with these companies that hinged on lowering prices in exchange for higher volumes. This strategy is most likely to succeed in middle-income countries with limited subsidized commodity supplies (Armand 2003a) as more potential users can be accessed.

In less favorable contexts, a product priced more affordably might fail to meet commercial suppliers' volume and profit expectations. In that scenario few people can pay any commercial price and the marginal increase in sales volume fails to make up for the reduced profit margin. Although this assumption has not been the subject of public research, it is in the mind of commercial suppliers operating in low-income countries. In addition, some countries also are perceived as a financial and business risk, further discouraging international companies and local distributors from developing the market. In an uncertain business environment, skimming or catering to high-income, educated consumers may appear safer than investing in long-term recruitment of lower-income users.

Hence, launching a mid-priced brand remains a risk, though investing in market-building activities (such as provider training, communication campaigns, and commercial incentives) can mitigate it. Introducing a product with different features (such as a textured condom or a lower-dose oral contraceptive) also can help offer value to consumers and justify a higher price. Beyond this basic marketing strategy, the initiatives undertaken by SFH, PSI, and PSP-*One* in Nigeria will generate much-needed experience in market-building strategies for sub-Saharan Africa.

Building commercial brands in a donor-dependent country may require the involvement of non-commercial partners.

In the 1990s the SOMARC project encouraged the introduction of commercial contraceptive products at affordable prices in a number of middle-income countries with generally positive results on market sustainability (Agha, Do, and Armand 2005). There are few instances, however, of successful commercial partnerships in sub-Saharan Africa, where local distributors in the region tend to shy away from investing in any class of product that does not have the potential to generate quick returns. In Nigeria, the PSP-*One* project chose to leverage the presence of a social marketing program committed to meeting donor objectives and willing to experiment with commercially sustainable approaches. This approach was deemed preferable to working with a local commercial distributor with a more limited commitment to reproductive health and family planning goals and a short-term, profit-driven approach to the market. In other areas, however, local distributors may be found that display the same interest in building markets for contraceptives as SFH in Nigeria.

Generic manufacturers in developing countries are more inclined to adopt a high-volume, low-margin strategy.

In low-income countries, low-cost products must be available to local distributors if substantial commercial market share is to be achieved (a condition for lessening a country's dependency on subsidized products). As observed in the PSP-*One* project's previous assessments, generic manufacturers in developing countries are often more likely to market (export) lower-price products because they have low operating costs and do not invest in extensive research and development (Beer and Armand 2006). These suppliers, however, often have limited capacity to market brands in a commercial setting and need strong local partners (such as local distributors or SMOs).

NGOs involved in commercial activities must surmount organizational and cultural barriers.

SFH subscribed to the idea that the Nigerian market needed to be better segmented and was willing to experiment with commercially sustainable products. It did not, however, immediately comprehend the implications of this new approach for its staffing and incentive structure. Integrating a commercial activity in an organization dedicated to serving the poor where financial concerns are often subordinate to health impact is not an easy proposition. As many NGOs and family planning associations have in other regions of the world, SFH will face a cultural and organizational shift if it is to manage commercial activities. For example, the SMO needs to be willing to adopt new cost-accounting practices and internal incentive systems to ensure that commercial activities generate the expected income.

ANNEX E: HONDURAS CASE STUDY

6.17 INTRODUCTION

The number of countries with more than one locally managed social marketing project or organization has increased over the last ten years, notably in Central America (Honduras, El Salvador, Nicaragua, and Costa Rica), Pakistan, Nepal, the Ivory Coast, Tanzania, Uganda, and Ghana. This new trend has resulted from: multiple donors investing in social marketing programs; increasing segmentation between family planning, HIV/AIDS, and high-risk populations; and new USAID contracting mechanisms that have allowed multiple entities to compete for new social marketing projects. This case study highlights some of the sustainability issues that arose in Honduras as the result of two NGO organizations, Ashonplafa and PASMO, marketing several condom social marketing brands.

Not surprisingly, these two social marketing programs originally were intended to serve different populations, but as both programs evolved there were increasing concerns about how their condom social marketing components overlapped. These issues also coincided with USAID/Honduras' efforts to prepare for the phase-out of commodity support, as well as the graduation of the Honduran family planning program. Within this context USAID/Honduras requested support from PSP-*One* in assessing the two SMOs and designing a strategy that would allow the mission to maximize its investment in social marketing and ensure impact and market sustainability for contraceptives in preparation for phase-out of USAID support (Cisek and Merten 2005).

6.18 BACKGROUND

Ashonplafa—a private, non-profit family planning association affiliated with IPPF—has a long history of working in family planning and reproductive health in Honduras. Ashonplafa has a large clinic infrastructure throughout the country and it provides a variety of general health, reproductive health, and specialized services. Ashonplafa launched its first condom social marketing product, *Guardian,* almost two decades ago and *Guardian* quickly established itself as the low-priced market leader throughout this period of donor support. During the later years of USAID support, Ashonplafa introduced a variety of other condom brands designed to target higher socioeconomic segments and create revenues to help to cross-subsidize the program. USAID phased out financial support to Ashonplafa's social marketing program in 1998 and commodity support was phased out in 2000.

In 2000, PASMO (a local NGO PSI established) initiated a condom social marketing initiative in Honduras as part of a regional HIV/AIDS prevention program. PASMO launched the *Vive* condom brand with brand-specific marketing and promotion, as well as behavior change interventions targeted at specific behaviors (including partner reduction, delayed sexual debut, abstinence, mutual fidelity, and consistent and correct use of condoms) to high-risk populations. In a short time, *Vive* became the market leader in Honduras, contributing to an increase in condom sales, but also gradually eroding sales from Ashonplafa's established social marketing brands.

6.18.1 TECHNICAL SUSTAINABILITY

Since the introduction of their first low-priced condom social marketing brands (*Guardian* in the case of Ashonplafa and *Vive Original* for PASMO), both organizations succeeded in expanding their condom product lines, offering a range of products with different pricing levels, product attributes, and target audiences. There were 10 different socially marketed condom brands (as well as a special bulk presentation of *Vive Amor* and *Vive Original*) provided for direct distribution to high-risk audiences. All condoms were procured through commercial sources. In many cases the target audiences for these brands were similar. In terms of pricing, three social marketing brands were targeted to the low-end of the market, with PASMO marketing the two cheapest brands. Seven out of 10 social marketing brands were targeted to the middle- and upper-market segments, with much more overlap in pricing. Ashonplafa, however, decided to discontinue its *Okey* and *Protektor* brands because of poor performance.

The primary distribution channels for both SMOs were commercial distributors, reaching a variety of pharmacies and other retail outlets. Ashonplafa and PASMO worked with pharmaceutical and consumer product distributors covering commercial outlets and other sub-distributors covering other retail outlets. In addition, Ashonplafa distributed its social marketing brands (except *Piel*) through its extensive community-based distribution network, which includes over 1,700 community agents. In addition to its commercial distributors, PASMO had a dedicated force of four salesmen (one in Ceiba, one in San Pedro Sula, and two in Tegucigalpa). As PASMO's most recent distribution survey reported, however, over 80 percent of its condom sales were obtained through traditional outlets. Additionally, the number of non-traditional and high-risk distribution points was limited compared to distribution in pharmacies and other traditional outlets, meaning that the majority of condom social marketing brands were being sold in the same outlets.

In terms of advertising and promotion, by early 2005 Ashonplafa had reduced its mass media advertising and focused most of its resources on incentives for retailers to encourage them to recommend *Guardian*. For example, Ashonplafa implemented a "mystery shopper study," whereby sales representatives (disguised as everyday clients) asked clerks to recommend a condom brand. If the clerk recommended *Guardian*, they won a prize. APROPO also implemented special incentives for its distributor's sales force. PASMO, however, was conducting both generic BCC and brand-specific advertising for its condom brands. In addition, PASMO was implementing a range of interpersonal communication strategies directly with high-risk audiences, including clients of commercial sex workers and *Garifuna* [4] in bars, border crossings, parks, truck stops, brothels, red-light districts, and geographic areas that are known to have a higher number of reported cases of HIV.

While the marketing elements of each organization's social marketing program were technically sustainable, both organizations were making brand decisions based on what was perceived to be the most viable option for their own organization—rather than considering the medium- and long-term growth and sustainability of the condom market.

6.18.2 FINANCIAL SUSTAINABILITY

The financial sustainability of the two social marketing programs was also critical to the mission's phase-out strategy, yet there had been little technical review of the financial elements of the programs. Ashonplafa had developed financial sustainability targets for the organization—as well as the social marketing program—but was not allocating indirect costs to its financial-sustainability analysis.[5] As a

[4] *Garifuna* is an ethnic group in Honduras present mostly on the Atlantic coast, and considered to be a high-risk group for HIV/AIDS.

[5] Ashonplafa had developed financial sustainability indicators for each of its three major programs: clinical services, community-based distribution, and social marketing. Yet the organization's indirect costs were not included in these indicators, thereby creating inflated financial sustainability levels.

result, its financial sustainability indicators were inflated. In PASMO's case, although it was implicit in its agreement with USAID that the program would be sustainable by 2009, there had been no indicators established for how this goal would be achieved. From the outset, however, PASMO had a much higher level of donor subsidy.

As part of the assessment, both organizations provided a detailed financial review of their social marketing programs (summarized in Table 11). While Ashonplafa's social marketing program was generating sufficient revenues to cover the costs directly related to operation, marketing, and commodities, it did not fully cover the 7 percent of indirect costs that were attributed to the program.[6] The financial sustainability of Ashonplafa was 75 percent when indirect costs were allocated appropriately to the program. This finding was important, given that Ashonplafa's social marketing program was supposed to be contributing to the organization's sustainability. PASMO's projected level of self-sufficiency for 2004 was estimated at 29 percent (34 percent if major infrastructure investments were removed). In addition, the PASMO program had been designed to reach high-risk groups and to develop BCC interventions to reach these groups—interventions that require their own specialized infrastructures and that are unlikely to be sustainable.

TABLE 11. ASHONPLAFA AND PASMO'S SOCIAL MARKETING FINANCIAL SUMMARY FOR 2004 IN USD (PROJECTED AT THE TIME OF THE ASSESSMENT)

	Ashonplafa	PASMO
Total revenues	$312,861	$162,248
COGS	$114,571	$59,328
Gross margin	$198,290	$102,920
Total expenses	$160,554	$508,964
Indirect costs [7]	$142,831	$0
Profit/loss	($105,094)	($406,044)
Self-sufficiency	75%	29%

6.18.3 INSTITUTIONAL SUSTAINABILITY

Although both Ashonplafa and PASMO were implementing condom social marketing programs with similar technical components, their institutional capacities differed. Ashonplafa is a large organization with several hundred staff in various parts of the country. Ashonplafa's program portfolio included several other large components, primarily the provision of clinical reproductive health and family planning services, a large community-based distribution network, and its social marketing (by far, the smallest component of the three). After the withdrawal of USAID support, a small marketing department managed the social marketing component with essentially one marketing manager and one administrative support person, limiting the technical breadth and depth of marketing experience. Ashonplafa had been receiving significant support from USAID to subsidize its clinical services and community-based distribution programs for many years. In 2005 it was negotiating its final cooperative agreement with USAID, which was envisioned to end in 2008 and would most likely provide reduced support from USAID.

[6] Ashonplafa's financial summary includes all of its social marketing products.

[7] Ashonplafa's overall indirect costs are allocated proportionately to each of its three programs. As all of PASMO's activities are related to social marketing, all of its costs are represented in total expenses.

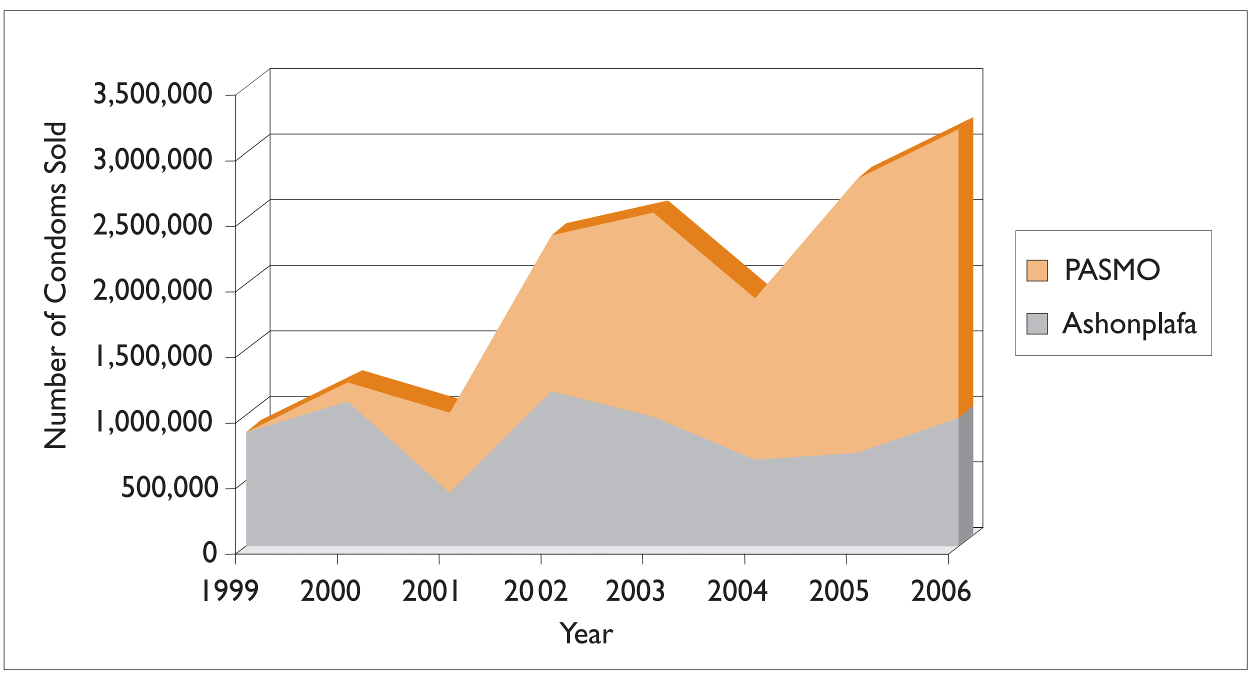
In contrast, PASMO is a much smaller organization and a newcomer in Honduras, but with significant social marketing experience through its affiliation with PSI. Its current programmatic focus was centered on HIV/AIDS prevention and management and implementation of its condom social marketing program. As a result, PASMO had strong marketing, sales, and distribution capabilities. It had approximately 10 professional staff dedicated to local management of the social marketing program (and one expatriate resident adviser) with personnel and offices in Tegucigalpa and San Pedro Sula. Its local staff included experts in social marketing, advertising and promotion, sales and distribution, and HIV/AIDS BCC. USAID has almost exclusively funded PASMO's program—although PASMO was also in the process of receiving additional funding from KfW to support the launch of a lower-priced condom brand.

6.18.4 MARKET SUSTAINABILITY

Given its medium-term strategy to phase-out family planning support, the USAID mission in Honduras was also interested in ensuring that social marketing interventions would continue to have a significant impact, as well as ensure the sustainability of the condom market in the medium- and long-terms.

The sales of condom social marketing brands increased significantly after the launch of PASMO's *Vive* brand. Prior to *Vive*'s introduction, the sale of Ashonplafa's condoms had increased gradually to approximately 1 million condoms per year (Figure 2). In 2001 (the first full year of *Vive*'s introduction in the marketplace), the overall condom market decreased slightly. During that year *Vive's* launch eroded Ashonplafa's sales. In 2002 Ashonplafa condom sales recovered (perhaps because of a more aggressive response by Ashonplafa to the increased competition) and the market for condoms grew, with both organizations selling approximately 1 million condoms. In 2003, the market increased slightly, yet Ashonplafa's sales decreased, suggesting that some previous Ashonplafa consumers had shifted to *Vive,* a highly subsidized brand.

FIGURE 2: SALES OF PASMO AND ASHONPLAFA CONDOMS



By 2004 there was a decline (19 percent) in the marketplace—PASMO's brands' sales decreased by 12 percent and Ashonplafa's sales decreased by 30 percent. In 2004 Ashonplafa discontinued sales of its *Okey* and *Protektor* brands, and PASMO discontinued *Vive Max*, while introducing *Vive Mas*, *Vive Mas Fuerte*, and *Vive Mas Natural*. PASMO also introduced another condom brand, now the least expensive brand on the Honduran market, *Vive Amor*, subsidized by another donor. PASMO's decision to introduce an even lower-priced condom brand further complicated market dynamics and raised the question of how its introduction would affect sales of the existing USAID-funded brands being targeted for financial sustainability.

In summary, PASMO's presence in the market place generated an important increase in condom sales, and stimulated increased competition for Ashonplafa, benefiting the marketplace in the short term. Ultimately Ashonplafa's already graduated condom brands, however, were unable to compete because they received no outside marketing and promotion support while PASMO's program continued to be heavily subsidized. Ashonplafa lost more than 40 percent of its sales between 2002 and 2004 to *Vive's* lower-priced brand. While competition in the marketplace is positive because it exerts downward pressure on prices and maximizes consumer choices, in this case, the competition was highly imbalanced and donor resources were being invested to build market share for a single brand without necessarily increasing use. Prevalence of condom use for family planning[8] remained essentially unchanged at just above two percent from 2001 to 2005 (Ministry of Health 2002, Ministry of Health 2006), although trends in use for disease prevention may have been different. The chief concern in 2004 was that the introduction of PASMO's *Vive* brand had the unintended consequence of making the market less sustainable because it encouraged consumers to switch from sustainable brands to highly subsidized brands. The sales figures for 2005 and 2006 are discussed in the following section.

6.19 CONCLUSION

As a result of this assessment, PSP-*One* recommended a social marketing design that maximized health outcomes by building upon existing technical strengths and institutional capabilities of both Ashonplafa and PASMO. The social marketing design aims to:

- improve the targeting of USAID subsidies toward demand-side activities (such as support of generic, category-building campaigns and BCC) that would benefit the condom social marketing activities of both organizations
- focus USAID resources on strengthening the access to and availability of condoms in non-traditional channels and channels more appropriate for high-risk audiences
- reduce USAID's subsidy toward premium-priced condom brands.

This approach involved leveraging support for both programs through a single coordinating agency, PSP-*One*, to ensure that USAID's resources are channeled toward meeting the needs of underserved populations and toward overall market growth and sustainability. Beginning in late 2005, PSP-*One* has been responsible for overseeing a coordinated social marketing strategy and ensuring that both PASMO and Ashonplafa implement their programs according to agreed-upon targets. Specifically, PASMO was directed to focus on sales outlets designated as most likely to serve high-risk groups, while Ashonplafa supplied chiefly to pharmacies and traditional outlets where, it was assumed, family planning consumers were more likely to obtain their condoms. In January 2006, USAID/Honduras chose to increase its direct support to Ashonplafa's social marketing program, reversing its previous policy of unbranded

[8] For women ages 15-49.

market-building approaches. Although this latest decision may affect overall market sustainability because it favors one particular supplier, it is consistent with USAID's long-term support for this NGO and the need to ensure the continued presence of a social marketer in Honduras. Moreover, it intended to shift low-risk consumers back away from the highly subsidized condom to a sustainable condom brand.

Approximately one year after PSP-*One* began its work in Honduras, this new strategy seems to be producing promising results. PASMO's sales bounced back in 2005 and continued to increase in 2006 (Figure 2), probably benefiting from USAID/Honduras' support to demand-creation activities. Also, the sales of PASMO's cheapest brand through high-risk outlets has been rapidly increasing as a result of the targeting of USAID/Honduras' support to distribution in those outlets. Most importantly, USAID/Honduras' renewed support to Ashonplafa has allowed its brands to begin regaining market share, as shown by its increase in sales from 2004 to 2006, thereby increasing the contribution of sustainable brands to the total market while growing it to over 3 million condoms sold (Figure 2). In addition, market research shows that commercial sector market share increased in 2006, suggesting a halo effect.

6.20 LESSONS LEARNED

Continue to assess the impact of having multiple social marketing organizations and programs in a given country. The Honduras experience in condom social marketing demonstrates that the introduction of a second condom SMO stimulated significant growth in the condom market. The experience, however, also shows that the new SMO's brands competed directly with other condom social marketing brands (also supported by USAID) that serve traditional retail outlets. It will be important to continue to monitor and assess the impact of having multiple SMOs in a country on financial, institutional, and market sustainability, and to develop tools and monitoring mechanisms to ensure that donor resources are targeted to priority activities.

Develop improved mechanisms to allow for comparison and analysis of the technical elements of social marketing programs. To ensure maximum impact of donor resources, social marketing programs will need more information on the profiles and purchasing patterns of users of social marketing brands, improved analysis and tracking of distribution channels, improved analysis and tracking of donor subsidies to marketing and promotion efforts, and improved analysis and tracking of financial information.

Conduct financial analyses to show the relation of sales, revenues, operating expenditures, and profit and loss—regardless of whether the program is expected to achieve financial sustainability. This information will promote a better understanding of program costs and commodity and sourcing issues. It also will allow for basic analyses, such as cost per product sold. With this knowledge programs may establish baseline indicators, as well as develop realistic interim targets. These analyses are also relevant when multiple donors are financing different components of the same program or organization.

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