

920028 62
PN-#774-678
ISN = 49203

Submitted to:
AID/Office of Population
Family Planning Services Division
Rosslyn, Virginia

SOMARC REPORT:

Commodities Distribution
and
Management Information
in the
Honduras CSM Project

Prepared by:
Julio Castellon
Henry Elkins
and
Steven Hawkins
SOMARC/The Futures Group
1111 14th Street, N. W.
Washington, D. C. 20005

June 21, 1985

Project No: DPE-3028-C-00-4079-00

TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
A. Background	1
B. Registration and Importation Procedures	5
C. Commodity Distribution System	9
D. Management Information System	16
E. Requirements Projections and Procurement	18
F. Special Problems and Discussion	19

A. Background

Honduras is a Central American country bordered by Guatemala to the Northwest, El Salvador to the Southwest and Nicaragua to the Southeast. The Northern portion is coastal land on the Carribean Sea while the country has a small area in the Southwest that is Pacific Coast. The area of the country is 112,088 square kilometers. The land tends to be mountainous.

The climate is tropical in nature. Temperatures are moderated both by altitude and the heavy influence of major bodies of water. The country experiences one rainy season lasting from about May to November. Heaviest rainfall occurs toward the ends of the season, i.e. in May and October. Rainfall during this season can be sufficient to make travel to some parts of the country difficult.

The population, as estimated in 1983 from 1974 census data is around 4,000,000. The country has approximately 15 urban areas (population over 10,000). The twin cities of Tegucigalpa and Comayaguela (the capitol district, population around 500,000) and San Pedro Sula (about 325,000) are the only cities with population greater than 100,000. Approximately 37 percent of the population lives in an area classified as urban. The number of women at risk is estimated as 500,000.

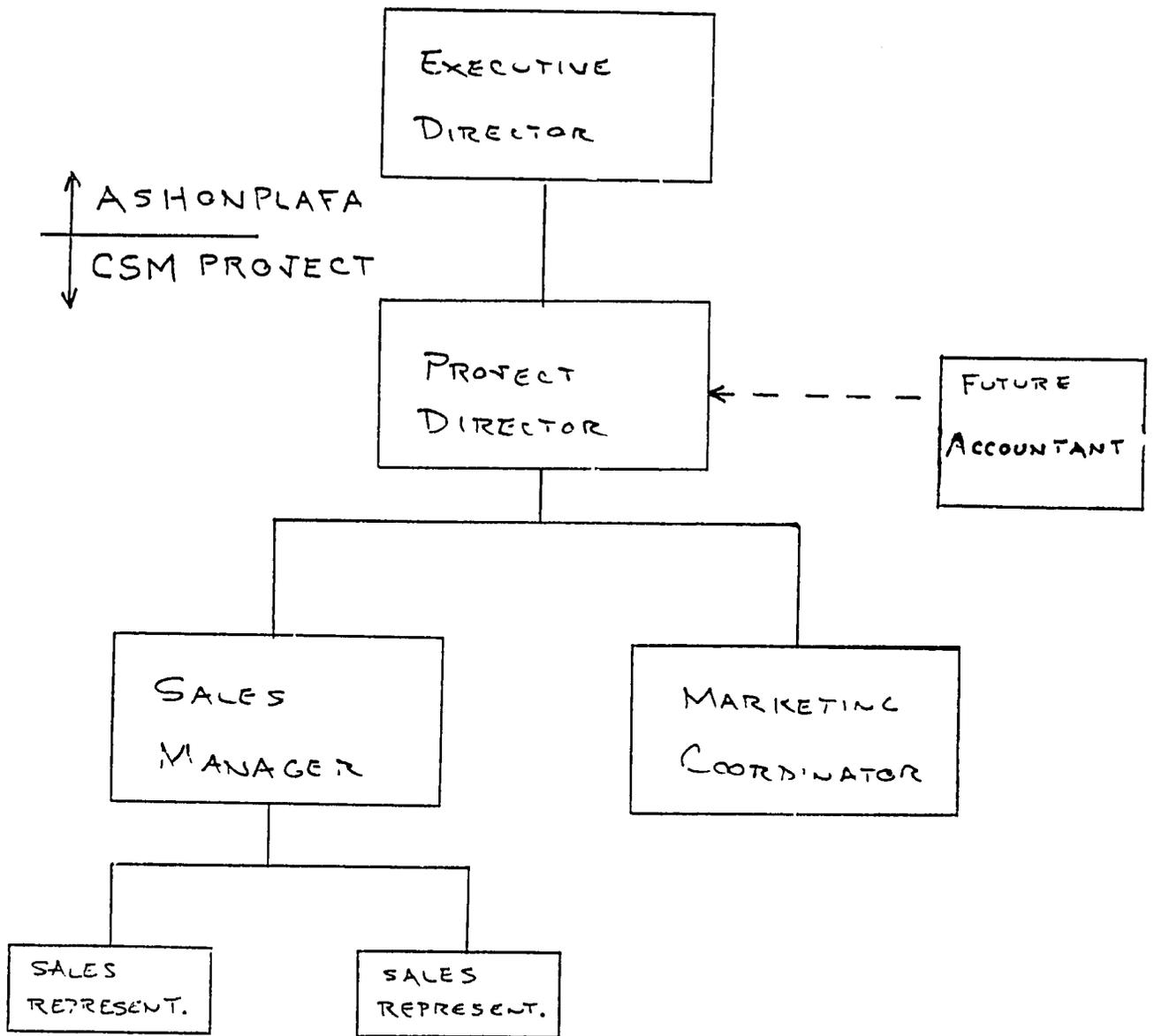
The Honduras CSM program is run by ASHONPLAFA (Asociacion Hondurena Planificacion de Familia) the local IPPF affiliate. The Executive Director of ASHONPLAFA is Sr. Alejandro Flores, who has served in this position for over 15 years and has overseen the successful development of ASHONPLAFA from a small clinic

program to an institution with multiple programs serving over 90,000 current contraceptive users.

The first director of the CSM program was Lic. Carlos Young Torres who was previously Director General de Comercio Exterior. He was replaced as director in early 1984 by Lic. Ramon Alberto Sarmiento, Licenciado en Administracion de Empresas, M.B.A. and former professor of marketing at the National University. Licenciado Sarmiento is now Coordinador de Programas in ASHONPLAFA. His place as Director of Marketing was assumed by Marcial Solis, who previously worked in the National Association of Industries. Licenciado Solis received his M.B.A. in Lima, Peru and is currently Professor and Director of the Economics Department at the National University. Mr. Miguel Machuca is the project director assigned to the CSM project by Triton Corporation. Mr. Machuca brings to the project more than 15 years of international marketing experience at the management level in Latin America.

The total CSM program staff consists of the director, the coordinator for marketing, the sales manager, two salesmen, one secretary and a messenger (see Figure 1). ASHONPLAFA is in the process of searching for a person to place within the administrative staff whose sole responsibility will be the administrative coordination of the CSM program.

The CSM program began selling products with the introduction of Noriday under the name Perla in March, 1984. A condom, marketed under the name Guardian joined the product line in November, 1984.



CSM PROJECT ORGANIZATION

FIGURE 1

Current sales levels for Perla are around 20,000 cycles per month. Perla is sold in single cycle packs for L 1.50 (about US \$.75). In addition, there is a special promotion in effect at the time of this writing that provides three cycles and a container/compact for L 3.00. Product is distributed to retailers in dispenser packs that contain 24 cycles.

Sales levels for Guardian are 25,000 to 30,000 pieces per month. Product is sold in boxes containing three pieces for L 1.25. The individual pieces in the box are each of different color. The product is distributed to retailers in dispenser packs containing 24 boxes.

The basic operating organization involves a direct to retail distributor (see section C). Approximately 25 percent of the population (1,000,000) is estimated to be within the service area.

B. Registration and Importation Procedures

1. Product registration

Oral contraceptives, hormonal implants, and spermicidal agents all require registration before they can be imported. Diaphragms, and condoms do not. Most products that are sold through doctors require registration and therefore IUDs are likely to fall in this category.

The local organization registering a product must be a drogueria, i.e., a wholesale distributor of pharmaceutical products. The drogueria must be operated by a pharmacist who owns at least 51 percent of the business. The requestor must obtain power of attorney from the manufacturer. Normally manufacturers grant power of attorney for registration only to their already established representatives. Thus, in order to register Noriday, the oral contraceptive sold in the CSM program, Quimifar, the Syntex representative in Honduras, must actually file the request. ASHONPLAFA mentioned that in Guatemala, Ortho granted permission to the local IPPF affiliate to register Conceptrol, but that degree of liberality is rather exceptional. Licensing of local agents in Latin America is apparently something that is approached with considerable caution by pharmaceutical manufacturers. It is possible to unintentionally establish an organization as your representative for more products than you intended.

Normally, a drug is registered under the name used in the country of origin. In Honduras, it is possible, but not customary, to register a product under a name different from the

name in the country of origin. Perla, for example, is registered as Perla/Noriday for a period of three years.

Drugs to be sold within Honduras must be registered with the Colegio Quimico Y Farmaceutico (the Organization of Chemists and Pharmacists). Only members of the Colegio Quimico may apply for registration of products. For this registration, the following procedures or items are required.

- 1) Evidence of power of attorney granted by the manufacturer to the requestor.
- 2) Product samples (approximately ten)
- 3) Chemical formulation
- 4) Tests and the methodology for testing to ensure that the samples agree with the stated formulation, and
- 5) Certificate of free sale (evidence that the product is approved for sale in the country of origin)

Registration with the Colegio Quimico typically takes around eight months. This time can be considerably shortened if the requestor has a good relationship with members of the Colegio Quimico. It can be a lengthy process if members of the Colegio Quimico do not feel that it is in the pharmaceutical wholesalers' interest to have the product registered. Since many members of the Colegio Quimico are drug wholesalers, the introduction of a competitive product may meet some resistance. ASHONPLAFA has not encountered resistance from the Colegio Quimico regarding the registration of its products, however.

In addition to the registration with the Colegio Quimico, registration with the Ministry of the Economy (MOE) is required. This registration is for the trademark, price, and package

design. This registration can be done concurrently with the Colegio Quimico registration. The MOE permit cannot be granted, however, until the Colegio Quimico registration is received. The MOE registration takes one to three months. The services of an attorney are required to process the MOE registration. Nominal registration fees are required for both the Colegio Quimico registration and the MOE registration.

The Colegio Quimico registration typically lasts one year. Again, with a good Colegio Quimico relationship, the registration period can be extended. The MOE registration lasts 10 years for the trademark and package design. The price registration lasts until you request a higher price. Product may be sold for less than the approved price but may not be sold for a higher price.

The product registration with the Colegio Quimico typically expires after one year and must be renewed. A request must be made for renewal, but only the continued power of attorney must be provided as evidence. The renewal typically takes two months. Nominal fees are required.

In addition to the Colegio Quimico registration and the MOE registration, every shipment must be granted an import permit by the Central Bank. These import permits are typically ways of controlling the outflow of scarce foreign exchange. Even though the donated products sold by ASHONPLAFA do not involve the movement of foreign exchange, the permit process is required. Getting involved in the paperwork itself is somewhat cumbersome, and the issuance of these permits typically takes one to three months. When the emergency shipment of Noriday arrived in May,

no import permit had been issued. Through personal contacts, a permit was obtained in about two days.

2. Customs Classifications, Procedures, Duties

For donated products there are no import duties, but all imported goods must pass through customs, and a letter of donation must accompany the shipment. The customs procedures consist of registering the importation of the goods and inspecting the papers to be sure that the goods are bona fide donations. This process normally takes three to five days.

For any goods not imported as donations, duties apply. The classification and applicable duties for contraceptives are as follow:

	<u>Classification</u>	<u>Duty</u>
Pills.....	541-09-04-09	5%
	541-09-05-09	
Condoms.....	"	5%
IUD's.....	"	5%
Hormonal implants	"	5%
Vaginal suppositories, jellies.....	"	5%

In addition to import duties, there is a 5 percent sales tax applied to commercial products. Tax exempt status can be achieved by demonstrating in the articles of incorporation that the purpose of the organization is non-profit. This tax-exemption is granted only to the institution in question and not to the products. In essence, this means that both the wholesale distributor and retail outlets pay all normal taxes deriving from the sale of Perla and Guardian.

C. Commodity Distribution System

The port of entry for normal shipments by containership is Puerto Cortes on the Atlantic Coast. If the shipment is in a sealed container, the container is generally sent directly to Tegucigalpa for customs clearance. For shipments in conventional crates, customs clearance takes place at Puerto Cortes. For shipments needed in less than two months, the port of entry and site for customs clearance is Toncontin Airport in Tegucigalpa.

For transportation from the site of customs clearance to ASHONPLAFA's central warehouse, ASHONPLAFA contracts with a commercial trucking company. The time required for truck shipment is less than one day from Puerto Cortes and a few minutes from the Tegucigalpa airport.

ASHONPLAFA has a modern, well-ventilated warehouse located on the first floor of their office building. From the ASHONPLAFA warehouse, condoms and pills are shipped in batches for packing to Drogueria Sandoval, the major distributor (wholesaler) of both products. Drogueria Sandoval subcontracts to pack the products in cardboard boxes and in dispenser cartons ready for delivery to the retailers. A printing company delivers the boxes and cartons to ASHONPLAFA, who provides all materials for packaging to Sandoval. Sandoval's subcontractor has at least four times the packing capacity necessary for the current level of sales. Over a two-week period Sandoval is able to pack 50,000 condoms (about two months sales volume) or in the same period, about 50,000 cycles of pills, also about two months sales volume.

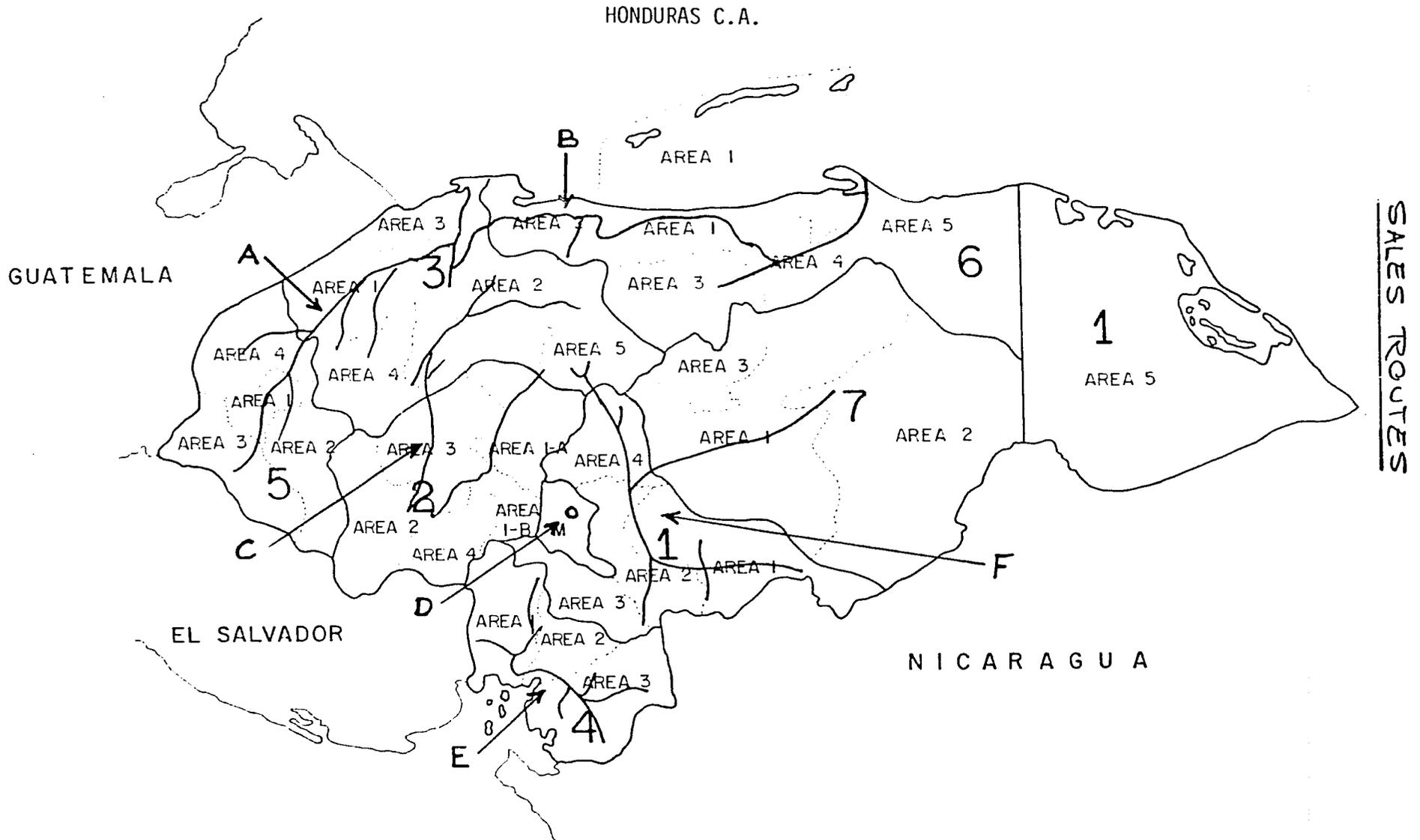
After packaging, the products are returned to the ASHONPLAFA warehouse.

With three salesmen, Sandoval distributes to 227 pharmacies and 153 puestos de venta (sales posts) along five routes. (See Map No. 1.) Routes A, and B require 20 days to complete. Both routes begin in San Pedro Sula and cover the pharmacies in that city before branching to the East or West. The salesman covering these two routes typically covers each one on alternate months. Routes C, E and F each require about 10 days. The salesman responsible for these routes normally covers 2 of them each month. Route D consists of the Tegucigalpa area and is permanently covered by one of the salesmen.

The salesmen vend other Sandoval products, mainly low-priced drugs manufactured in Honduras. The salesmen both sell and deliver the products from their trucks on the same visit. They can be restocked within one day if they run out of stock before completing the route. About seventy percent of Sandoval's sales are for cash; thirty percent for credit. Sandoval takes the complete responsibility for offering credit and assumes any losses for bad accounts.

ASHONPLAFA supplements the efforts of Sandoval's salesmen with two sales representatives of its own. They plan their itineraries to supplement rather than compete with the Sandoval salesmen. The ASHONPLAFA sales representatives attempt to minimize the possibility of stockouts by covering retailers that Sandoval cannot reach within a reasonable period of time. This typically involves covering the uncovered route A or B and the one uncovered route among C, E or F. In covering the uncovered

DIVISION POLITICA DE SALUD



routes, the ASHONPLAFA sales representatives are treated as if they work for Sandoval. They receive their stock directly from the Sandoval supplies, use the same inventory and settle accounts with Sandoval upon their return. The appropriate Sandoval salesman receives sales commission for the coverage and the Sandoval and ASHONPLAFA sales representatives trade information on the handling of the accounts. The ASHONPLAFA sales representatives receive no sales commission for the coverage but their compensation is built into an incentive system including total program sales and other program objectives. The Sandoval salesmen invariably cover the cities of Tegucigalpa and San Pedro Sula.

The salesmen plan their work so as to arrive in Tegucigalpa at the end of the month to file reports and attend a monthly sales meeting. There is some difficulty in scheduling these meetings since the times to complete the routes do not always fit the thirty day period. The salesmen file their travel and lodging plans so that Sandoval and ASHONPLAFA can reach them by telephone during the course of the month. The salesmen report preliminary sales figures by telephone and receive news of any promotional effort, including new promotional efforts that may be launched in the middle of the month. The maximum profit for a retailer set by the government is 25 percent of his cost, whereas the distributor can earn a maximum of 31 percent. In order to sell Perla to consumers at L 1.50 per cycle, ASHONPLAFA sells Perla to Drogueria Sandoval at L 0.916. Sandoval in turn sells Perla to pharmacies and puestos de venta at L 1.20. For Guardian, the price to the public is L 1.25 for three condoms.

ASHONPLAFA sells the Guardian to Sandoval at L 0.7634, and Sandoval sells the Guardian to retail outlets at L 1.00. In contrast, the ASHONPLAFA community-based distribution program sells similar Ansell condoms at L 0.40, one-third the retail price of Guardian. The community-based condoms are Tahiti brand sold in strips without a box.

The following two pages show a schematic organization of the ASHONPLAFA commodity flow patterns. These diagrams trace commodity flow from the port of entry to the retail outlet.

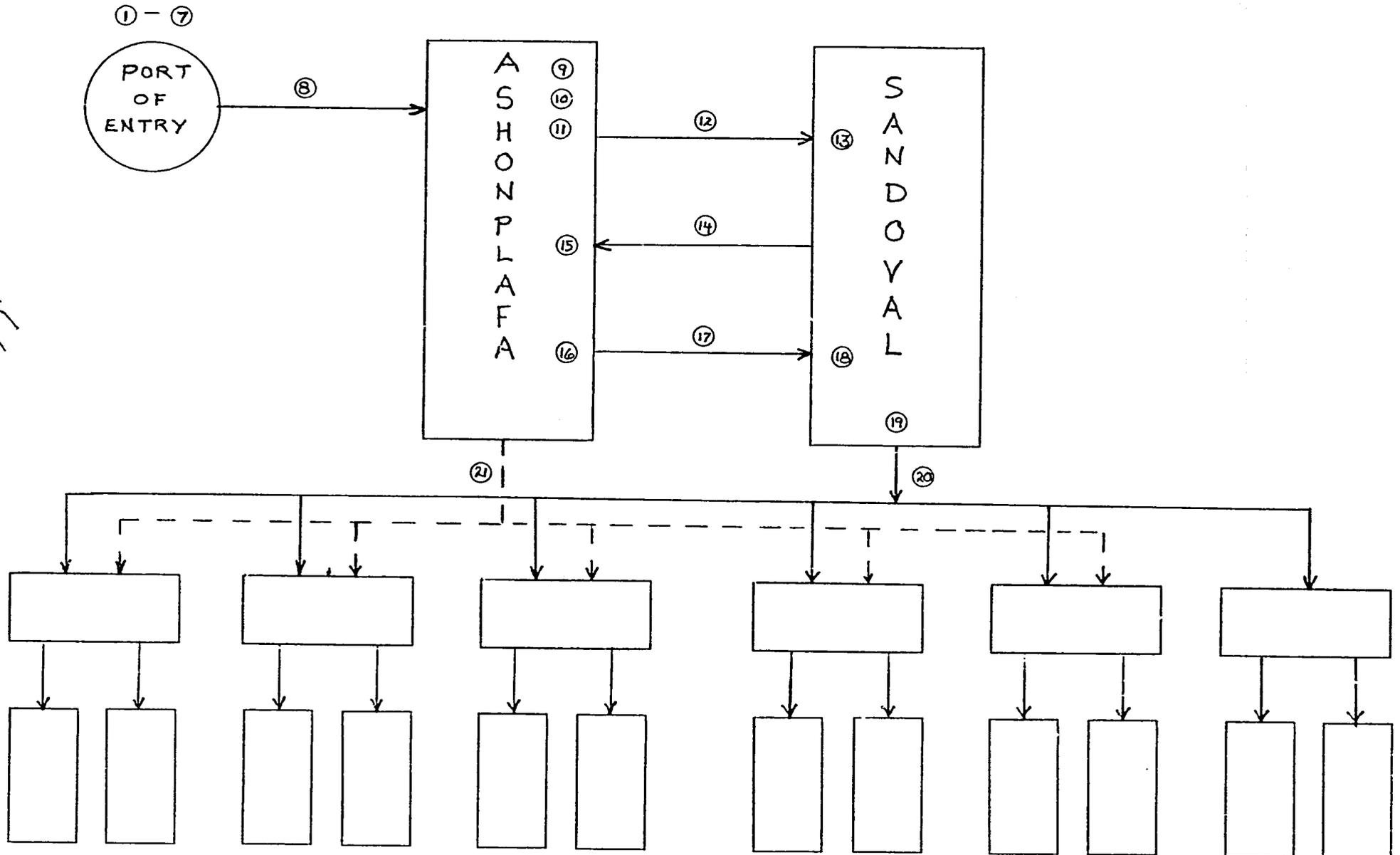
Pipeline length from port of entry to consumer is only about five weeks. This is comprised of two weeks custom's clearance, one week packing, one week paper processing and one week transportation

Major steps in the Commodity Distribution System

- 1) Arrival at port of entry
- 2) Record and posting of shipment at customs office
- 3) Customs storage
- 4) Notice to ASHONPLAFA's office
- 5) Customs clearance procedures
- 6) Customs clearance
- 7) Inspection with customs personnel
- 8) Shipment to central warehouse
- 9) Inspection and receiving procedures (classification by date)
- 10) Record and posting of shipment (warehouse inventory kardex)
- 11) Main storage
- 12) Shipment to packaging process
- 13) Packaging
- 14) Return shipment to warehouse
- 15) Storage in packed products area
- 16) Preparation of shipment to distributor
- 17) Shipment to distributor
- 18) Storage at distributor
- 19) Preparation of representative loads
- 20) Distribution by Sandoval
- 21) Direct distribution by ASHONPLAFA

HONDURAS CSM: COMMODITY FLOW

-15-



D. Management Information System

The Management Information System used by the Honduras CSM program is entirely manual but also relatively small. The program serves as the sole handler and processor of data for the entire distribution system. It receives no assistance from the distributor, AID, or IPPF in the documentation of its commodity movements or the projection of requirements (see section E).

Starting at the bottom of the distribution system, i.e. at the retail level, the sales people for the distributor (or ASHONPLAFA) fill out a form for each route they serve. The forms (see attachment A) contain spaces for the entry of only two types of data for each product and each retail outlet. These data are the stock on hand at the arrival of the sales person and the amount of the sale made (new supply left) by the sales person. The sales person enters this information for both products and in some cases for special promotions that may be under way. He also enters the same information on a card that he maintains on each establishment for his own future reference.

ASHONPLAFA collects the forms, but not the cards, upon the return of the sales person. At present, the only processing that is possible before the monthly sales meeting is a listing of stockouts and low stock situations. These are noted in the sales meeting, and efforts are made to remedy these conditions. In the long run it is desired that automated processing will enable ASHONPLAFA to produce a sales curve and monthly sales averages for each retail outlet. Until this becomes a reality, the card record that the sales persons maintain is the only source they have to estimate individual outlet requirements. With automated

processing, ASHONPLAFA hopes to be able to project individual outlet requirements more accurately and reduce stockouts from the present level of around 15 percent.

Data from the retail reporting forms are summarized and reported internally on a monthly basis. For a more detailed quarterly report, see Attachment B, which is prepared for distribution to AID and through ASHONPLAFA to IPPF.

Few discrepancies occur between the sales reported by the retail report form and the distributed amounts. These discrepancies are settled informally.

The distributor maintains a constant paper inventory of his warehouse through product flow and reports on stock levels to ASHONPLAFA in person or by telephone. ASHONPLAFA also maintains a parallel record system to check the distributor's supplies. In the event of an approaching stockout at the distributor's warehouse, Sandoval files a purchase order with ASHONPLAFA for the required goods.

At the central warehouse, inventories based on shipments and receipts are maintained on kardex. Physical inventories are taken every two months, though the frequency is expected to decrease once the transition to the new warehouse is completed.

Since the distribution system consists only of the central warehouse, the distributor's warehouse, and the distributor's sales staff, the forms mentioned above are the only forms within the system.

E. Requirements Projections and Procurement Procedures

The last formal effort for estimating contraceptive requirements was done in late 1983 prior to the launch of the program. Information was collected by a representative of the Centers for Disease Control, Mr. Berg-Eisen. He calculated needs and supposedly forwarded this information to AID. ASHONPLAFA does not recall receiving information on the results of these calculations nor descriptions of the methodology used to make the projections. The contraceptives ordered on the basis of these calculations have not yet arrived. In conversation with Tom Park (AID), we learned that no order of Noriday is, in fact, pending because of the recent procurement problems experienced by AID/Washington. He thinks that there is an order for Feminol pending, however. This product is not registered in Honduras.

In light of the increasing sales and small stock of pills remaining in April 1985, ASHONPLAFA initiated an emergency order directly with AID for 108,000 cycles. These pills were shipped by air and arrived in May. They passed through customs and were delivered to the ASHONPLAFA warehouse in early June. Current stock on hand is roughly 100,000 cycles. At present sales levels, this represents a 5 to 6 month supply.

In addition to the stock of Noriday on hand, we observed a stock of around 200,000 cycles of Norminest. No product launch for Norminest is expected in the immediate future.

F. Special Problems and Discussion

The accomplishments of the Honduras CSM project are very impressive. A little over a year ago the project was little more than an interesting concept. Now, they are a major provider within the oral contraceptive market in Honduras. They have apparently become so without incurring the animosity of the other commercial agencies in the market or of other interest groups. This is not to say that there are no problems or areas of potential improvement. Areas of particular note are outlined below.

Product registration is a problem here as it seems to be for most programs. As was stated earlier, the registration of Perla/Noriday is purely due to the good will of Quimifar. Since this service was extended at a time when the program was nonexistent, and therefore not competing in the market, it is not known how long the kindness will extend. At the same time that they face the potential threat of nonregistration, ASHONPLAFA must deal with the prospect of uncertain or nonexistent future supplies of Noriday. They apparently have had little input to or feedback from the commodities procurement process. At a minimum, they confront uncertainties with respect to future stock quantities. In a more extreme case, they potentially face a near total loss of product development, with no preparation for shifting their customers to other products.

With respect to Norminest, the problems are even more severe. Norminest was to be introduced by the CSM program under the name Prebien. Apparently, after the market pretest was conducted of this name, Syntex became concerned that the "bien"

portion of the name might be construed to mean that the product would be good for you. They became sufficiently concerned about possible liability that they refused to ask Quimifar to cooperate in the registration process. They requested that the name be changed to Previen, instead. At this point, AID/Honduras and the CSM program have agreed to the name change. Either no one has told Syntex of this decision or insufficient pressure is being exerted, or Syntex is still uncomfortable with the name, because no registration request has yet been filed. In the meantime, the CSM project has a stock of around 200,000 cycles in the warehouse. The manufacture date on this stock is June, 1982. Even if the introduction of this product is as successful as the introduction of Perla, this represents over 1 1/2 years of stock.

Another problem has been caused by the very success of the program's promotion and the selection of the name Guardian for the condom. The Ministry of Health has a cadre of village volunteer health workers known as Guardians of Health. The coincidence of names was simply too much for the public to resist, and jokes and nicknames about Mr. Condom (the health worker) have resulted. The Guardians of Health have traditionally suffered from low morale, and the Ministry fears that the jokes may have further reduced morale and increased turnover rates for these volunteers.

Persons Contacted

Alejandro Flores, Executive Director, ASHONPLAFA
Ramon Alberto Sarmiento, Coordinator of Programs, ASHONPLAFA
Marcial Solis, Program Manager, ASHONPLAFA
Margarita Suarez, Director of Research and Evaluation, ASHONPLAFA
Jeronimo Larios Silva, Marketing Coordinator, ASHONPLAFA
Miguel Machuca, Project Director, Triton Corporation
Albert Ferri, Jr., Board Chairman, Triton Corporation
Tom Park, USAID
Peter Cross, Management Sciences for Health
Gustavo Corrales, Management Sciences for Health
Jaime Sainz, Director, Division of Epidemiology, Min. of Health
Enrique Zelaya, Division of Epidemiology, Min. of Health