

**Condom Distribution in Pakistan:
Assessing The Impact of Price Increases**

By

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The findings, conclusions, recommendations and forecasts described in this report are those of the authors and may or may not be the same as those of other officers associated with the SMC Project.

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Summary

The primary objectives of this study were: (1) to analyze the reasons for the sharp decline in Woodward's 1992 sales compared with 1990 and 1991 sales and (2) to assess the impact of the 1991 price increases on supply factors (for example, availability of Sathi to condom users) and on demand factors (for example, retail sales to consumers and shipments of Sathi to other countries).

Background

The Social Marketing of Contraceptives (SMC) Project began in 1986. Its purpose is to increase contraceptive prevalence in Pakistan.

This report (1) describes the patterns of condom distribution, sale and use since 1986, (2) analyzes the recent declines in sales of USAID-procured condoms, (3) identifies possible effects of recent price increases, (4) offers sales forecasts and (5) provides conclusions and recommendations for action. The study may be of use to the Government of Pakistan, to USAID and to other donors as a tool for developing strategies aimed at forecasting condom requirements and ensuring that donated condoms are used as intended.

The study examined three categories of condoms: (1) the social marketing brand (Sathi), (2) the public sector brand (formerly called Sultan, which was replaced by a plain "no logo" foil in 1991), and (3) all other brands, often called "commercial" or "expensive" brands. The first two brands are procured by USAID in America and have been sold at low prices. During 1991, the retail price of Sathi was doubled in order to increase Project revenues. The price of the no logo brand was increased five-fold in November. At the end of 1991 the suggested price to the consumer was the same for either brand: 50 paise each (2 cents). Soon after the second price increase there was a very sharp drop in Woodward's sales to its distributors. The challenge was to discover the cause and the effects of the decline.

Several analytical methods were used during the investigation. PSI recently developed the Project's Management Information System (MIS) to include distribution and sales data, results of a monthly audit of shops, as well as results of the 1991 Demographic and Health Survey (DHS) and results of field monitoring visits. Distribution and sales data are collected from three levels: national warehouses, regional distributors, and a panel of retailers. At the national level, distribution of USAID-procured condoms are measured by sales reports of Sathi issued from the Woodward Company's warehouse in Karachi, and by reports of the public sector brand issued from the Ministry of Population Welfare (MPW) Central Warehouse in Karachi. At the regional level, sales of Sathi are measured by sales reports from independent distribution firms who buy from Woodward. At the retail level, several indicators of stocks and sales of all condom brands have been measured monthly in 1200 retail shops in 21 cities. Field monitoring gives indications of qualitative changes in marketing patterns. Project officers visit distribution firms, wholesalers and retail shops throughout the country to examine stocks and sales patterns.

Key Findings

Excess Annual Distribution of 100 Million Condoms Prior to 1992. The investigation showed that an average of about 155 million condoms were distributed each year from 1986 to 1991. But the results of the Demographic and Health Survey indicated that Pakistani couples used only 50-60 million. The excess (or "gap") for all condoms was about 100 million per year.

Sathi Sales in 1992 Reflect DIIS prevalence. The drop in Woodward's sales to 34 million in 1992 relates quite well with DHS-based figures.

Supply Factors Unimportant. The investigation showed that supply factors appeared to have little effect, if any, on the drop in Woodward sales in 1992 although some distributors did report stock-outs later in the year.

Demand Factors Account For Sales Decline. The investigation showed that demand factors were the major cause of the decline in Woodward's sales. After the price increases went into effect, demand dropped for family planning use, toy balloon use and for cross-border sales.

Price Increases Caused Drops in Demand. It is concluded that the price increases were the cause of declines in demand for all three types of sales.

Decline In Demand For Sathi Is Greatest For Cross-border Sales. About 70% of the decline in Woodward's sales can be attributed to the decline in cross-border sales, 25% to decline in family planning sales, and 5% to decline in toy balloons sales.

Retail Sales Hit Hardest in Small Cities. The decline in average Sathi sales per retail shop appears to be most severe in the smaller cities: sales are down by 60%. The decline in large cities is about 16%. Average family incomes tend to be less than in larger cities.

Cross-border Sales and Balloon Sales Crippled. Sales of Sathi for balloons and sales intended for other countries appear to have dropped precipitously.

Conclusions

It appears that the price increases have dealt a severe blow to cross-border shipments. Toy balloon sales, which were always small by comparison, have also been hit hard.

Unfortunately, the price increases have also hit Sathi users, specially those who have relatively low spending power. This suggests that the current price of Rs 2.00 may be as much, or more, than most working-class couples are prepared to pay. Because of these uncertainties about the willingness of Pakistani men to buy at current prices, any additional increases in prices in the near future will incur the risk of pricing condoms beyond the reach of the Project's new target audience, ie, working class men who make as little as Rs 2000 a month (as opposed to middle class men). Another increase in the near future could also lead to considerable confusion in the market because some retailers, wholesalers and distributors continue to hold unsold stock in old packages, ie in packs priced at Rs 1.00, and Rs 1.50, as well as at the current price of 2.00.

Although cross-border sales have been sharply curtailed, they may continue, although at sharply reduced rates. This is to be expected in this part of the world, where virtually all consumer products are susceptible to transport across borders. However, it is possible to keep such sales at a minimum by capping monthly sales to major distributors and reviewing very large orders.

Tentative projections based upon the results of this study indicate that use of Sathi for contraception in Pakistan in 1993 may be about 38-42 million at the present retail price. Perhaps another 1-3 million will be sold for cross-border shipments.

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Purpose and Utility of this Study

The Social Marketing of Contraceptives (SMC) Project is part of the national population programme; it is sponsored jointly by the Government of Pakistan and USAID. The purpose of the Project is to increase prevalence (use) of contraceptives.

This report (1) describes the patterns of condom distribution, sale and use since 1986, (2) analyzes the recent declines in sales of USAID-procured condoms, (3) identifies possible effects of recent price increases, (4) offers sales forecasts and (5) provides conclusions recommendations and forecasts.

Results of this study may be of use to the national population programme, USAID and other donors as a tool for developing strategies and forecasts as well as for ensuring that donated condoms are used as intended.

Condom Procurement, Importation, Distribution and Prices

All condoms available in Pakistan are imported because there are no locally manufactured condoms. This study discusses three categories of condoms: the social marketing brand (Sathi), the public sector brand and commercial brands. Procurement, importation, distribution and pricing of each of the three categories are summarized next.

Sathi

The social marketing distribution system was introduced through the SMC Project. USAID procures Sathi condoms from the Ansell Company in the USA. Ansell ships them, in foil wrappers, through USAID/Karachi to the Central Warehouse operated by the MPW. The W. Woodward Company, a commercial marketing firm under contract to USAID, collects the condoms from the Karachi warehouse and arranges for printing of packing materials for the two pack sizes: a 4-pack and a 12-pack. Woodward also arranges for people to place the condoms into consumer packs, dispensers and shipping cartons. There are 2,304 condoms in each shipping carton of 4-packs. Each carton contains 48 dispensers; each dispenser contains 12 packs; each pack contains 4 four condoms. Cartons of 12-packs have a different configuration.

There are four levels in the Sathi distribution pipeline: Woodward, regional distributors, wholesalers and retailers. Woodward sells Sathi to about 200 independent distribution firms throughout the country. Each distributor is a private firm which contracts with Woodward to sell Sathi (and other Woodward products) in his city or town and environs. In turn, the distributors sell Sathi to wholesalers and to retail shops. Wholesalers also sell to retail shops. Sometimes retail shops sell to other retail shops, but not usually.

By 1992 Sathi condoms were stocked by an estimated 45,000 retail shops in Pakistan -- far more shops than those selling other brands. The costs of this large and intricate distribution system are included in the retail price and borne by the customers who buy Sathi from their neighborhood shop. Each entrepreneur -- retailer, wholesaler, distributor and the Woodward Company -- retains some "margin", ie, a portion of his selling price, as with other consumer products. Woodward turns over the remainder to the SMC Project bank account.

Until 1991 each Sathi condom sold for 25 paisa (Rs 1.00 per 4-pack). In 1991, the SMC Executive Committee raised the price of Sathi twice: first to 38 paisa (Rs 1.50 per pack) in March, then to 50 paisa (Rs 2.00 per pack) in November. There is also a 12-pack which now retails for Rs 5.50. At the current exchange rate (Rs 25 = \$1.00) the prices are eight US cents per 4-pack and 22 US cents per 12-pack. Sathi is now the lowest-priced condom found in retail shops. Sathi prices were doubled in 1991 in order to raise more revenue for the Project; this was required in order to improve financial sustainability of the Project.

The Public Brand

The public sector condoms are also procured in bulk by USAID from the Ansell Company. Each condom is wrapped in plain foil ("no logo"). There are 100 condoms in a white box. No packaging is undertaken. Instead, the condoms are shipped from the warehouse in the original white boxes of 100 to regional MPW offices throughout Pakistan as well as to non-government organizations (NGOs). The regional MPW offices transfer the condoms to a network of Family Welfare Centers. Some public sector condoms find their way into retail shops. Over the years, they have been seen in the original white boxes as well as in 3-packs named Sultan; the Sultan packs and dispensers have been undertaken by commercial entrepreneurs and the Family Planning Association of Pakistan. The plain white foil probably reduces their image as a marketable item.

In November 1991, the MPW raised the price of the public brand. Its official price of 10 paisa per condom was increased five-fold, to 50 paisa (half a rupee); it sells for the official price in the government's Family Welfare Centers. Some find their way into the retail shops, where the price ranges from 50 paisa to Rs 2.00, per condom, depending upon packaging.

Commercial brands

Records of imports of commercial brands are not available. Most are manufactured in Asia. Some packets are counterfeits of well-known international brands such as Durex, Sultan and Rough Rider. They are sold mostly in pharmacies. One brand, Durex Featherlite, is imported and sold by Woodward. Woodward is introducing another brand, "Together", early in 1993. A few brands are also packed in 12's

Imported brands sell for much higher prices than the USAID-procured brands: the range is Rs 2.50 - 4.00 (10-16 cents US) per piece. Each pack contains three condoms and sells for Rs 7.50-12.00 per pack, depending on the brand.

Price Changes

The only important change in marketing strategies over the past few years have been pricing strategies. Before 1991 there were three price ranges; the lowest price was 10 paisa (public sector condom); the middle price was 25 paisa (Sathi); the highest price was about Rs 3.00 (Durex and other commercial brands). There was a 30-fold difference between the cheapest and the most expensive.

By 1992 there were only two price ranges: the lower was 50 paisa (Sathi and the public brand); the other was much higher: Rs 2.50-4.00. The difference between the cheapest and the most expensive is about 8-fold, this is much greater than for most other consumer products.

Background to the Study

The present study was requested by USAID in 1991 after Sathi condoms were reportedly seen in Yemen, a nearby country of 3 million people; USAID requested PSI to organize a systematic investigation of cross-border sales. In September, the Secretary for MPW expressed concern about the possibility of cross-border shipments of Sathi, noting that total condom distribution was much higher than estimates of use implied by the recently-published Demographic and Health Survey (DHS). The Secretary's concern led the Project's Executive Committee to instruct Woodward to cap Sathi sales at 6,000,000 per month beginning in October, 1991 with a view to reducing the potential for cross-border sales.

Meanwhile, prices of Sathi and the public sector condoms were being raised. Woodward announced the imminent (second) Sathi price increase to the distribution trade (distributors, wholesalers and retailers) in October and November, although at the time Woodward had few Sathi's to sell because of a packaging crisis. In January and February, 1992, Woodward's sales of Sathi increased to the level of the 6,000,000 cap: enough to fill the distribution pipeline which had been emptied by the lack of supplies. But in March, 1992, Woodward's sales plunged. Field monitoring was increased immediately to investigate reasons for the plunge.

The price of the public brand was raised during the last quarter of 1991. Early in 1992 the MPW reported that demand for the public brand had dropped substantially after the price was raised.

Methodology: Gathering and Analyzing the Data

The Project's Management Information System was used as the data base for this study. PSI began by computerizing monthly sales data back to 1987, including month-by-month sales by Woodward to each of the 200 distributors. Another element of the MIS is the set of monthly reports from a panel of retailers called the Perpetual Retail Audit (PTA). From March, 1990 to November, 1992 auditors employed by Aftab Associates visited a panel of 600 pharmacies and 600 general stores in 21 cities every month to obtain records of purchases and stock-on-hand of all brands of condoms. PSI then graphed and analyzed the reported information in order to identify and report various trends in stocking and sales patterns.

Although the PTA is useful, it has limitations. First, sales by the panel cannot be extrapolated to the national level because the panel is not a representative sample of shops. Second, a retail audit cannot differentiate between sales to consumers and sales to other retailers; in Pakistan retailers sometimes sell to other retailers, such as small shopkeepers. Such sales produce anomalies in the data, specially if a substantial number of retailers in the PTA panel make substantial sales to retailers rather than consumers. Retailer-to-retailer sales are most common when a producer, such as the Woodward Company, publicizes an imminent price increase: immediately, many members of the trade, that is distributors, wholesalers and retailers, purchase larger-than-normal quantities at the old price with a view to selling them at a higher price to any purchaser, including other retailers. Retailers will often sell substantial proportions of their stock to other retailers during this phase. Sales might return to normal quickly or may take several months, depending upon the relative sizes of supply and demand. Third, retailers may be "trained", either purposefully or inadvertently, to stock a certain item because they are repeatedly visited by the auditor who asks about specific products; a retailer who was not stocking the item may eventually stock in order to feel that he is, in some way, satisfying the auditor; in other words he may want to be perceived as a "good" retailer. Fourth, the 21 cities in the panel

account for only 50-60% of Sathi sales nationwide, and there is no way of knowing if Sathi sales in other cities follow the patterns reported in the PTA. It is known, generally, however that cities of different sizes have quite different patterns -of sales, for example, city size is known to correlate with better-educated and richer consumers. Thus, patterns reported in the PTA may reflect habits of Pakistan's more affluent consumers because the present PTA panel consists mostly of relatively large cities. Aftab Associates is currently improving the methodology. In the meantime, PSI uses the current PTA as a method of reviewing trends over time, at least for the retailers in the panel. In fact, Pakistan is fortunate to have a retail audit; most developing countries do not. In the more industrialized countries, where retail audits have existed for more than fifty years, audit managers have discovered that several years of experimentation and modifications are required in order to provide reliable and valid results.

The Project's field monitoring system has also been strengthened and has become an important element in assessing changes in condom distribution. The computerized sales data base is used to identify cities and towns which show anomalies in their sales patterns. This helps Project officers to select specific sites for monitoring, rather than choosing areas at random or for the convenience of the officers. The computerized system is necessary for a large country like Pakistan which has a huge distribution pipeline consisting of 150-200 regional distributors, several thousand wholesalers and upwards of 45,000 retailers. Field monitoring is usually implemented by a team of three or four officers from PSI, Woodward and/or USAID. In a given day, a team can visit two or three distributors plus surrounding wholesalers and retailers, including village retailers. Monitoring in 1992 has included Lahore, Multan, Muzaffargarh, Sahiwal, Okara, Gujranwala, Gujrat, Kharian, La Musa, Jhelum, Peshawar, Mingora, Mardan, Charsadda, Rawalpindi, D.G. Khan, Chichawatni, Mian Chunnu, Khanewal, Pattoki, Faisalabad, Islamabad, Bannu, Kohat, Nowshera, Rawalpindi, Abbottabad, Hyderabad, Kotri, Jamshoro, Havelian, Manshera, Kalat, Mastung, Pishin, Quetta, Gilgit, Havellian, Buttgram, Haripur, Rahim Yar Khan, Sadiqabad, Bahawalpur, Kot Addu, Sargodha, Sukkur, Rohri, Larkana and Karachi.

Field monitoring also has limitations, for example, unlike the other tools, it cannot provide quantitative information. Furthermore, it is expensive, requiring frequent trips to far-flung parts of the country. And covering all distributors cannot be done quickly. Speed can be increased with phone calls; phoning is sometimes used as a substitute for a personal visit.

One more data source was used, namely the DHS. Interviewers employed by the National Institute for Population Studies (NIPS) undertook fieldwork in late 1990 and early 1991; they surveyed a random sample of 6,611 married women. PSI used the results of the survey as the basis for estimating the annual number of condoms consumed for contraceptive purposes in Pakistan. NIPS also surveyed husbands but the sample of 1,354 was not large enough to provide a reliably large subsample of condom users. Results of the women's sample of the DHS can be compared with results of a similar survey undertaken in 1985.

To summarize, PSI used the following data sources for this study: (1) monthly distribution and sales data, (2) the monthly PTA, (3) field monitoring and (4) results of the 1991 Demographic and Health Survey (DHS),

Findings

Condom Supply

The first step was to estimate distribution of all condoms in order to show trends over time. Annual condom distribution figures for 1986 to 1992 are shown in Table 1. As shown in the last column, annual distribution of condoms increased from about 103 million to about 180 million between 1986 and 1991; the average was about 155 million per year. The table also shows that the public sector brand played the largest role (almost 500 million during the period), Sathi sales totalled about half that amount, while the more expensive commercial brands played the smallest role (only 65 million). Table 1 also shows that 1992 Sathi sales were less than half the 1991 level. Sathi has dropped from an average of 51 million per year prior to the price increases to 34 million after the price increases; a decline of about 33%. The public brand appears to have dropped much more: from an average of 94 million to 4 million -- a decline of about 96%.

Table 1. Estimated numbers of condoms distributed (millions), 1986-1992				
Year/Source	Sathi	Public	Other	All
1986	0	91	12	103
1987	30	110	11	151
1988	33	126	11	170
1989	44	102	11	157
1990	74	34	10	118
1991	73	97	10	180
Total	254	469	65	879
Ave: 87-91	51	94	11	155
The above numbers can be contrasted with recent estimates for 1992, below.				
1992	34	4	9	48

Notes to Table 1: Sales figures for Sathi are based upon sales reports by the Woodward Company. Figures for the public brand are based upon reports of the government's Central Warehouse in Karachi. Estimates for all other (commercial) brands are based upon Project research, including the PTA, because there are no available reports of the numbers of commercial condoms imported or distributed. Assumptions used in calculating commercial distribution were: (a) that introduction of USAID-procured condoms would have reduced sales of existing commercial brands a little, (b) most condom users are probably loyal to their usual brands and therefore would not switch, (c) some men would switch after discovering that a cheaper brand, such as Sathi, is of good quality and (d) the expensive brands could only attract a small share of the market because their price is very high and therefore unaffordable to many Pakistanis.

The data from Table 1 are displayed graphically in Figure 1. The top line shows that total distribution increased steadily except for 1989 and 1990 (when the public brand was in short supply). Sales of Sathi would probably have been much higher in 1990 and 1991 if not for a shortage of packaging materials during the last quarter of each year. The graph also shows the large contribution of the public sector brand: it dominated the picture until 1989 when it went into short supply. It appears that Sathi began substituting for the public brand to some extent from 1989 to 1991. The graph also shows the estimated 1992 sales of Sathi and the public brand; these estimates were made partly as a result of the present study.

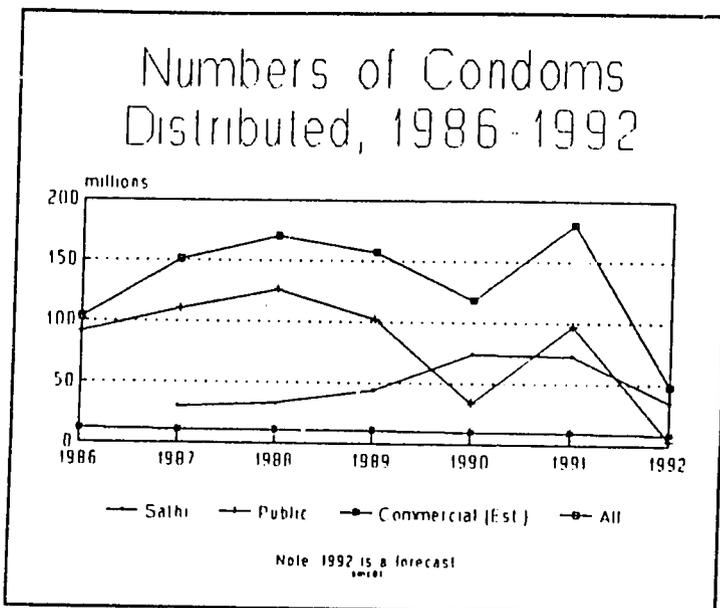


Figure 1

Condom Consumption for Family Planning Use, 1991

The next step in the investigation was to estimate consumption for condoms for family planning use in Pakistan. According to results of the DHS, use of condoms increased from 2.1% of married couples of fertile age (MWFA) in 1985 to 3.2% in 1991. As shown in Figure 2, fully half of the 1991 respondents who reported using spacing methods said they were using condoms. In other words, condoms were as popular as the other three spacing methods -- oral contraceptive pills, IUDs and injections -- combined. Results of the husband's sample (not shown here) indicated an even higher proportion of condom users (57%), but the women's sample will be used here because the sample size was larger and therefore has greater statistical reliability.

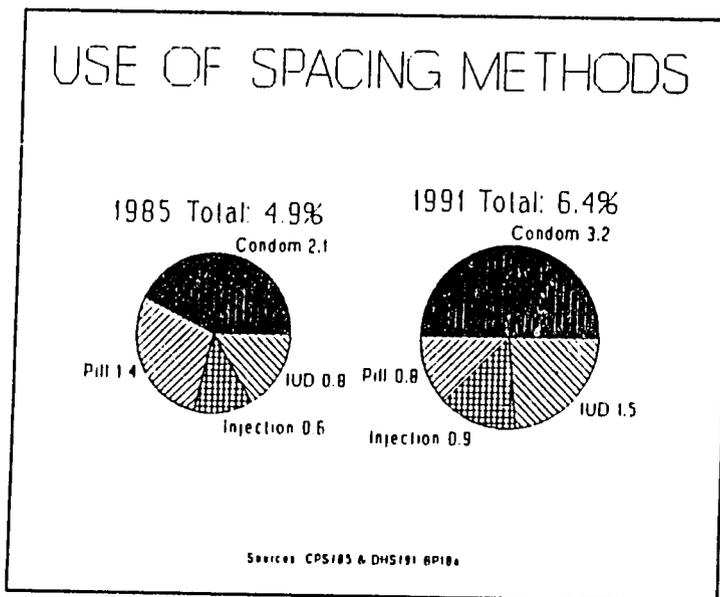


Figure 2

Results of the DHS provided the basis for calculating condom consumption in 1991; the estimate, as shown in Table 2, is 55 million condoms. The gap between this estimate and the estimated average annual distribution shown in Table 1 is about 100 million condoms. It should be emphasized, however that these numbers may be far off the mark, given the many tenuous assumptions listed in the notes to Table 2.

	Million
1. Total population	112.0
2. Females (46.3%)	51.9
3. Married Women Aged 15-49 (38.84%)	20.1
4. Non-pregnant (85%)	17.1
5. Reporting condom use (3.2%)	0.55
6. Number of condoms consumed (100/couple)	55.0

Notes to Table 2. The estimated consumption of condoms is based upon several tenuous assumptions and therefore may not be accurate. For example, the actual numbers of condoms used could differ from the estimates in the table if the number of married women is incorrect (it was extrapolated from the 1981 census) or if the estimated number of users is incorrect (it is based upon responses from women, while men are nearly always the purchasers) or if the average number of condoms used by each couple per year is incorrect (100 is commonly used in Pakistan whereas programmes in other countries have used a wide range of numbers, for example, as low as 76 to as high as 150). For all these reasons the figure of 55 million condoms is best perceived not as a close estimate but as an order of magnitude; perhaps the true figure is between 45 and 70 million. One possibility is that the actual number of couples using condoms is more than the estimated number of 550,000; on the other hand, the average rate of consumption may be less than 100 per year.

Sales of Sathi Condoms by Woodward, 1987-1992

The next step in the investigation was to relate Project sales to the DHS-based estimate. Woodward's monthly sales to their distributors are shown in Figure 3. The deep valley at the end of 1990, followed by a high peak early in 1991 resulted from a combination of two factors: the need to refill the almost empty distribution pipeline plus extra demand generated by Woodward's announcement of an imminent price increase. There was another packaging shortage late in 1991, resulting in a deep valley, but there was no corresponding peak afterward because the Project imposed a six million condom per month cap on Woodward's sales from October, 1991 to June, 1992. The graph also shows the very low sales from March to May, 1992. This sudden drop became a cause for alarm, because there were adequate supplies at the Woodward

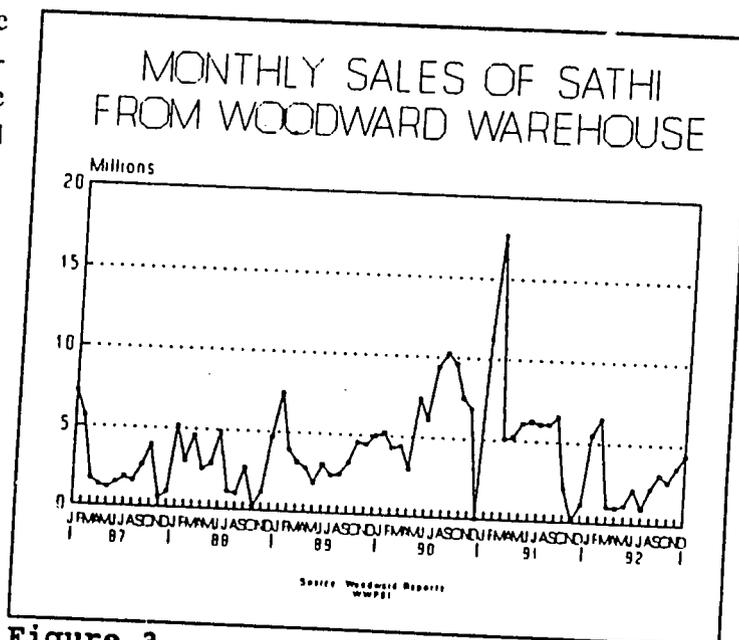


Figure 3

warehouse to meet the expected demand of 5-6 million. The challenge was to find the cause(s) of the plunge: factors affecting supply and demand were considered and investigated.

Supply Factors

Presumably, supply factors could have played a role in the decline in Woodward's sales, by restricting access to Sathi. One way of examining supply is to follow the trend in numbers of Woodward's distributors who have Sathi stock-on-hand. As shown in Figure 4, about 110-150 distributors usually report having stock-on-hand each month. (The numbers shown here are conservatively low because those who do not report are recorded as having zero stocks, even though they may, in fact have stocks.) Dips below 100 in the line tend to be temporary: they coincide with the dips in Woodward's ex-warehouse sales during the last quarters of 1990 and 1991 when Woodward could not supply enough packaged Sathi. The graph shows that distributors' stocking patterns were in the normal range during the crisis period of March-May, 1992. A decline was expected to begin in April when the Project discontinued financial support for Woodward's 40 Sathi salesmen, but no substantial decline occurred: many distributors continued to mail their monthly reports to Woodward's head office where they are entered into Woodward's records and then forwarded to PSI.

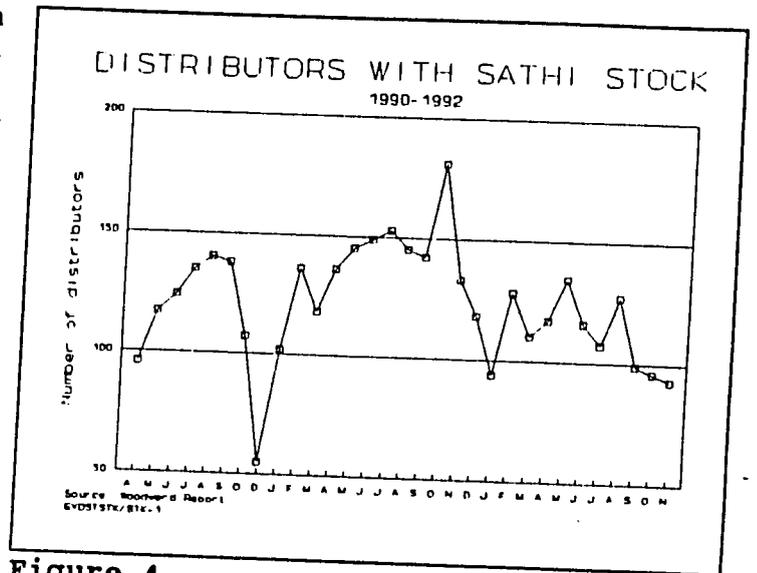


Figure 4

A more useful point of analysis is at the interface between the distribution system and the purchaser, ie, retail shops; such an analysis of the monthly audit of 600 pharmacies and 600 general stores (PTA) can give a useful measure of consumer access to Sathi. Changes in the trend over time indicate changes in supply of Sathi. As shown in Figure 5, about 75-80% of the pharmacies and about 50% of the general retailers in the PTA panel of shops were stocking Sathi during 1992. By international standards this level of access to condoms is very good indeed. The percentage of general retailers is particularly noteworthy, because in many countries condoms are found almost exclusively in pharmacies.

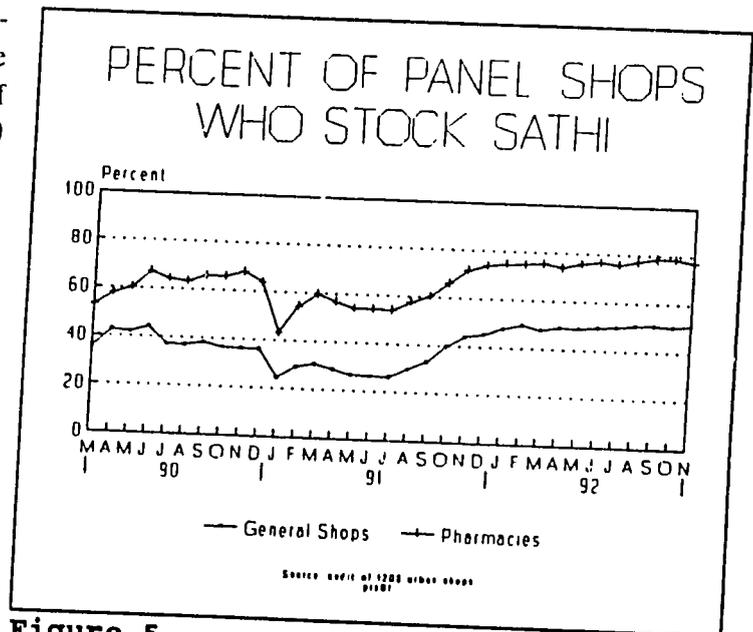


Figure 5

A more conservative measure of consumer access to Sathi is the percentage of panel shops which actually had Sathi in stock on the day of the monthly audit. As shown in Figure 6, almost 60% of pharmacies and more than 30% of general retailers had Sathi on hand when audited during 1992. But of most importance to this study are the trends since the November, 1991 price increase; as shown in Figure 6 there was no substantial downtrend among the shops covered by the PTA. In fact, the percent of pharmacies with Sathi on hand appears to have leveled at about its highest point since the PTA was started. The percent of general retailers with Sathi on hand seems to have settled at about the same level as before the price hike. Both lines show small dips in April. The general retailers' line has not risen much since April,

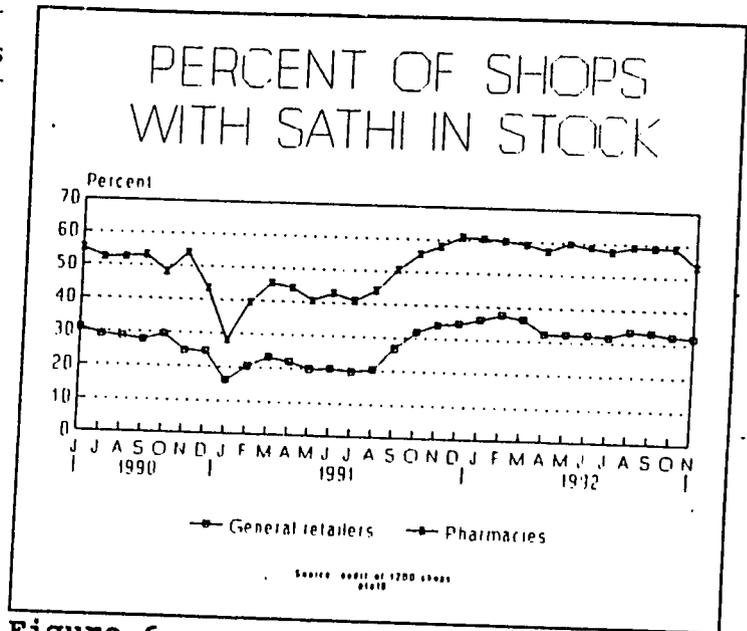


Figure 6

but the level established since April could hardly explain much, if any, of the precipitous drop in Woodward sales (specially since pharmacies account for a larger proportion of total sales than general retailers). One explanation of the small dips in 1992 could be a combination of the holy month of Ramazan (in March-April) plus the discontinuation of financial support for Woodward's salesmen. Field monitoring has also shown that supply patterns were generally maintained. (Very recently, --November, 1992-- some retailers were out of stock because their wholesalers had no stocks).

We conclude from this examination of supply patterns that most shortages in supply have been temporary or minor and were unrelated to the sharp decline in Woodward's sales in the Spring of 1992. It appears that consumer access to Sathi has been fairly well-maintained even throughout the heavy rains and flooding during August and September.

Demand Factors

1. Retail Sales

When seeking explanations for the drop in Woodward sales, it is important to examine retail sales. The data in Figure 7 were extracted from PTA results, showing trends in sales by retailers. The top line shows the sales trend for all condoms sold by the 1200 retailers in the panel, since the PTA began in 1990. The other lines show the three categories of condoms: Sathi, the public brand and others (the more expensive, commercial brands). Retail sales have been dominated by Sathi. Commercial brands play a smaller role than Sathi, while the public brand has played the smallest role (but the sales of the public brand through the MPW's Family Welfare Centres and NGOs are not included here). As shown in the top line on the graph, total sales began declining in December, 1991, just after price increases were implemented. The decline was influenced by Sathi and to a lesser extent by the public brand. The large increases shown for Sathi in early 1991 and in late 1991 were not due to increased demand from consumers but from other retailers. When a retailer learns about an impending price increase he quickly buys more than his usual amount at the lower price. Then he sells to other retailers (and to customers) at higher prices. In other words, retailers become temporary

wholesalers after a price increase. Increases in retailer-to-retailer sales registered by the PTA can mask decreases in sales to consumers, therefore it is necessary to wait for several months following the price increase to allow retailer-to-retailer sales to dwindle to their normal volume before comparing the new level with the level prior to the price increase. Using the last quarter (October - December) of 1990 as the norm for Sathi sales before prices were increased, the monthly sale had declined 15% by August, 1992. Since then, retail sales have established a new -- flat -- trend.

Also, as shown in Figure 7, the public brand followed suit. Retail sales slipped by about 40% after the price was increased in November, 1991.

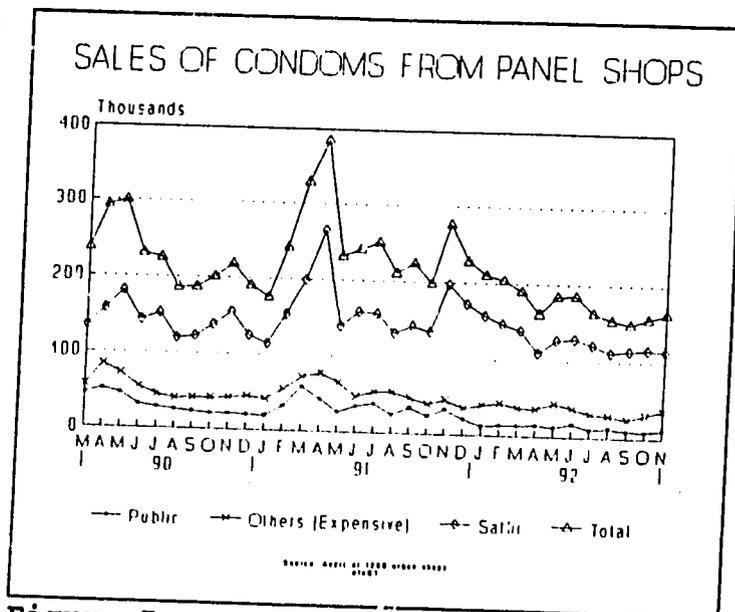


Figure 7

However, measuring total PTA sales of Sathi can be misleading because of possible fluctuations in the numbers of shops which stock Sathi: total sales will probably drop if there is a drop in retail stockists while total sales will probably rise if there is an increase in the number of stockists. One way of controlling for fluctuations in the number of stockists is to measure average sales per shop; in other words, to measure sales of a "typical" Sathi shop. Figure 8 plots average monthly sales among PTA shops which stock Sathi. As shown, the trend in average sales per shop has been steadily downward since the first increase in March, 1991 until August, 1992. Again, if we use sales during the last quarter of 1990 as the norm, the average monthly sale had dropped by about 35% before levelling off after August, 1992. This leads to the conclusion that Sathi has probably lost those customers who felt they could not afford the higher price; these are probably low-income couples who do not have an easily available, affordable alternative to Sathi.

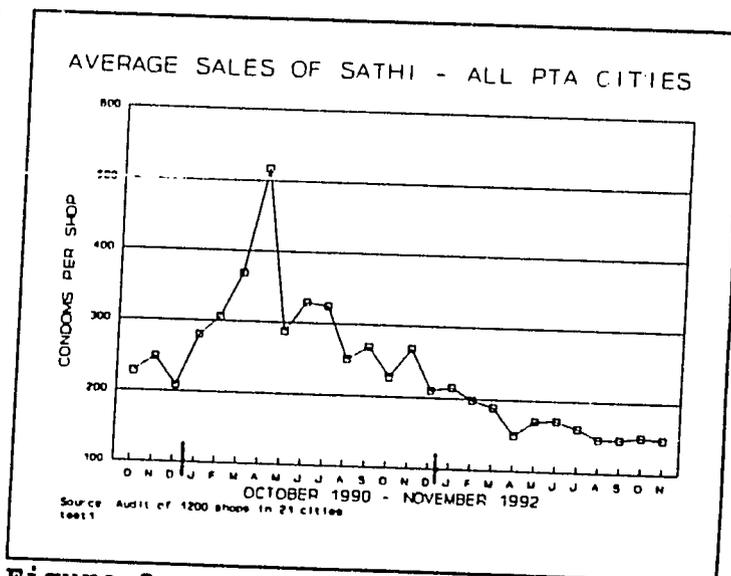


Figure 8

Whether or not similar declines occurred in areas not covered by the PTA can not be quantified; however, reports by retailers in small towns (where couples generally have less discretionary cash than those who live in larger centers) suggest that demand has dropped noticeably in some areas; shops in some small towns (and in at least one area of Karachi) still had stocks of Rs 1.00 and Rs 1.50 packs in October and November, 1992 while retailers in Gilgit said consumer demand had definitely dropped as a result of the increase in price to Rs 2.00. Further evidence that Sathi appears to have lost a portion of its lower income consumers is presented in Figures 9 and 10.

Figure 9 shows average sales per shop in the large PTA cities while Figure 10 shows average sales per shop in small PTA cities. The evidence is clear: the decline in large cities measured 16%, but the decline in small cities measured 60%. This is cause for concern and confirms the findings of a Sathi user study in two small towns a few months after the price was raised to Rs 2.00: about 60% of the Sathi users reported dropping out. Small cities have relatively large proportions of couples with lower monthly incomes, for example, Rs 2000-4000 (Class "C") which is the new target group for the SMC Project. It is also worth noting that the decline in consumer demand began immediately after the first price increase. The decline continued after the second price increase.

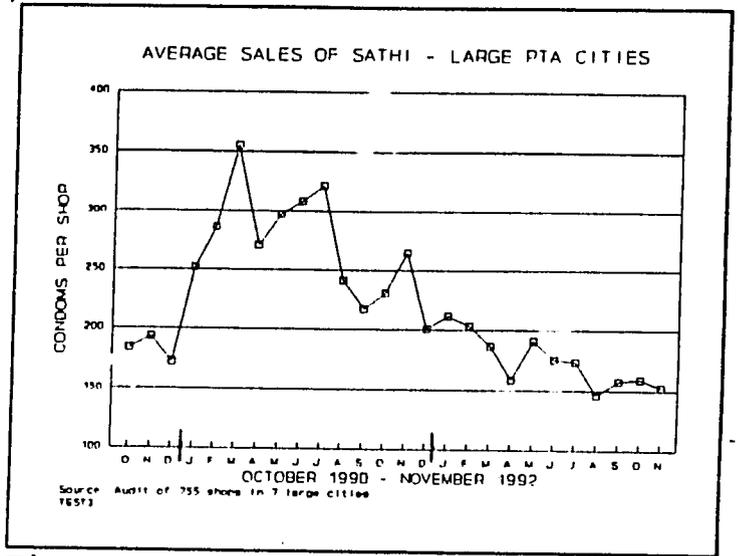


Figure 9

Some retailers said that Sathi sales had declined as a result of the price increase; most of these retailers were in smaller towns where people are less affluent. Retailers did not state exact sales volumes, instead, they usually estimated a range, for example, "three or four dispensers a week". Of course, sales which are reported as a range can mask a change in demand, therefore it is important not to rely on retailers' reports when attempting to quantify sales trends. Another problem in trying to gauge changes in sales at the retail level is the role of retailer-to-retailer sales. A retailer may not notice much drop in total sales, but his sales to consumers could have dropped while his erstwhile sales to other retailers could have increased. Retail audits are the best measure of retail sales trends.

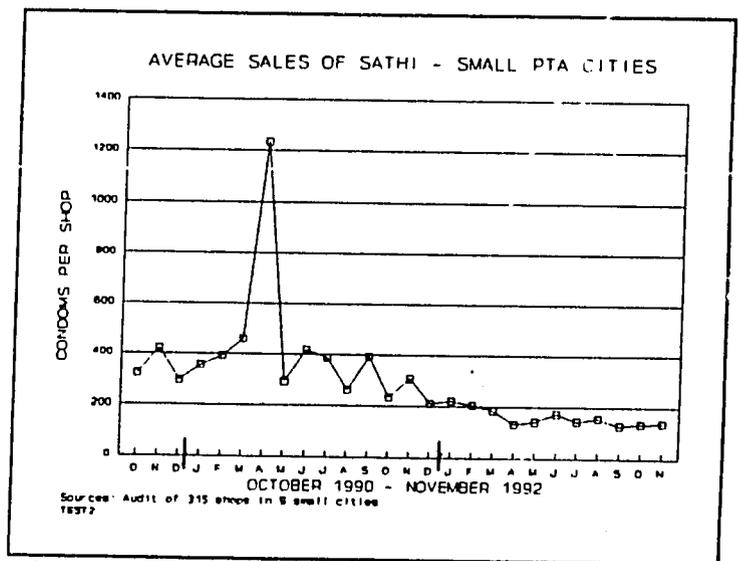


Figure 10

However, declines at the retail level shown in Figures 7-10 probably explain only a relatively small proportion of the precipitous drop in Woodward sales. The investigation also examined changes in demand at other levels in the distribution pipeline, namely the independent distributors and wholesalers who stock and sell Sathi.

2. Cross-border Sales

Discussions with the distribution trade during field monitoring trips was very revealing and showed that a principal cause of the 1992 decline in Woodward sales must have been the marked decrease in smuggling after the price was increased to Rs 2.00. Several distributors and wholesalers reported having sold large quantities of Sathi to truckdrivers for cross-border shipments until the price was increased to Rs 2.00; then demand dropped sharply. Retailers did not report demand for cross-border shipments. This pattern is logical: truckers in the cross-border business do not buy from retailers; they buy from wholesalers and distributors because they can obtain larger quantities at lower prices.

A few wholesalers and urban retailers said they had been selling Sathi for use as toy balloons, but that such sales had declined sharply or stopped completely as a result of the increase in price. Condom balloon sales were more commonly reported by retailers in tiny village shops; their sales volumes appeared to be very small.

As indicated in Figure 11, which shows Woodward's monthly sales by province, the decline appears to cut across all four provinces. This may mean that demand dropped among Sathi users in all provinces; it may also mean that condoms destined for borders may have been trucked from all provinces. While most such trucking might originate in cities close to borders of countries which have not yet developed their family planning programmes, such as Iran and Afghanistan, the condoms destined for other countries could have originated from any part of the country.

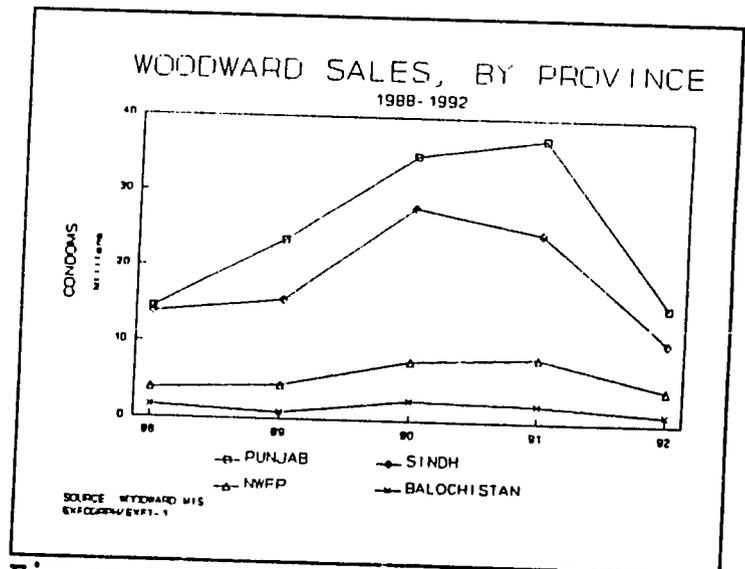


Figure 11

Conclusions, Recommendations and Forecasts

After analyzing all available data from the several perspectives described above, we can conclude that the major reasons for the large decline and continuing lower sales of Sathi condoms by Woodward's in 1992 appear to have been: (1) a decline in demand by Sathi contraceptors in Pakistan and (2) cross-border activities. The cause of the declining demand was the increase in price to Rs 2.00 per pack.

We now have sufficient indications, if something short of hard evidence, to estimate the relative contributions of these two factors on Woodward's sales decline.

The 1990 and 1991 Woodward's annual sales of 73 million now appear to be far in excess of the total number of condoms used for contraception in Pakistan. If total contraceptive use of all brands was about 55 million, and Sathi's share was 70%, then domestic consumption of Sathi for contraception would have been perhaps 38-39 million per year. It can therefore be concluded that most of the difference (73 million sold by

Woodward less 39 million consumed) -- about 34 million -- was for a combination of cross-border shipments and toy balloons. A very small amount, say 1-2 million, can be attributed to toy balloon sales, because they appear to be a very small factor, leaving about 32-33 million for cross-border shipments.

In 1992, Woodward sold only 34 million condoms, or 39 million fewer than in 1991 (or in 1990). This 39 million differential appears to be the direct result of the 1991 price increases, which has affected all three types of "traditional" Sathi sales: use as a contraceptive within Pakistan, cross-border shipments, and toy balloons. We estimate that the drop in demand for Sathi as a contraceptive was not 35%, as indicated by analysis of the PTA, but only 25%, because condom prevalence is skewed toward larger cities, according to the DHS. Thus, the remaining 75% of the 39 million differential must be attributed to the reduction in cross-border sales (and to a very minor extent, to the reduction in toy balloon sales). These are very rough estimates, of course. While the actual numbers may differ from these estimates, the relative magnitudes of the three factors are probably approximately correct. Woodward's sales decline can therefore be apportioned roughly as follows:

Reduction in cross-border sales	70%
Reduction in sales for domestic contraception	25%
Reduction in sales for toy balloons	<u>5%</u>
Total	100%

Assessment of the data at hand has led to the following additional conclusions, recommendations and forecasts. They are offered with a view to protecting the investment in Sathi because Sathi is the most popular condom among contraceptors, and condoms are by far the most popular birthspacing method in Pakistan. Furthermore, Sathi is the only contraceptive that is easily available in a large number of outlets at a reasonable price. In other words, there is no easily available, affordable alternative to Sathi.

1. *The evaluation and monitoring system has proven its value.* The SMC Project used several different perspectives and associated assessment tools to examine the riddle of the sudden ex-factory sales declines. If the retail audit and systematic field monitoring systems had not been available, the Project would have depended only upon national distribution figures. This would probably have led investigators to wrong conclusions, for example, that the distribution pipeline had dried up, leaving customers without access, or that the price increases had caused hundreds of thousands of users to quit when in fact, cross-border shipments were also important. Retail monitoring and retail auditing are proven methods; they are used by commercial marketers around the world, so that managers can learn quickly about changes in their markets and then quickly change strategies and tactics with a view to improving their bottom line.
2. *The Role of the Perpetual Trade Audit Should Not be Overemphasized.* The PTA is useful for showing trends within the panel of 1200 shops. But it does not represent nationwide patterns and it does not give a good indication of patterns in small urban communities. These are serious limitations; they militate against using the PTA results as the only indicator of consumer demand. It should also be noted that the utility of the current PTA will end this month. The PTA method is currently being improved; the new system was launched in November. The two systems are not comparable. Thus, trends to be seen in 1993 will not shed light on previous trends.

3. *Retailers Cannot Quantify Changes in Consumer Demand.* Not too much emphasis should be put on retailers' quantifications of changes in sales volumes because they can only guess and because they may be reporting sales to other retailers as well as sales to customers.
4. *Changes in Price Can Have Powerful and Unexpected Effects.* This study has shown that price increases can have wide-ranging, unpredictable effects on demand. It appears, for example, that Sathi's price hikes had effects on demand for cross-border traffic, toy balloons and contraception, and that these changes in demand were felt differently at different levels in the distribution pipeline.
5. *Demand by Cross-border Traffickers Was Substantial Prior to 1992.* The results of this study have confirmed concerns about cross-border sales of condoms. Prior to the December, 1991 price increase, a substantial proportion of USAID-procured condoms were apparently shipped each year to other countries, such as Afghanistan and Iran. The choice of brand apparently depended upon price and supply: when the public sector brand was cheaper than other brands it was the condom of choice, but when it went into short supply Sathi substituted, because its price was low enough to be profitable. The large numbers of condoms involved suggest a large demand for affordable contraceptives in neighboring countries, although some may have been shipped onwards to third countries.
6. *Cross-border Sales Have Plunged.* This study has shown that cross-border sales have been sharply reduced. While it is impossible to know with certainty whether any brand of any consumer product is no longer shipped from Pakistan to other countries, it appears that a condom priced to retail at Rs 0.50 is too expensive for most cross-border entrepreneurs. However, Project officers should continue monitoring activities as recommended below in order to reduce the potential for cross-border sales because there may always be demand for good condoms in countries like Afghanistan and Iran where existing supplies may be low because family planning programmes are weak.
7. *Balloon Sales Were Probably Minor; They Have Also Plunged.* Despite anecdotes to the contrary, condom balloons appear to have been a small part of Woodward's sales. Distributors, wholesalers and urban retailers apparently sold only a few condoms for balloons. Some periurban and village retailers had been selling USAID-procured condoms as balloons when the prices were lower than the prices of conventional balloons. Higher demand in rural areas seems logical because rural people are less likely than urban people to know that a condom balloon is in fact a condom. And rural people may be more tolerant than urban people about sex-related topics; they may be less easily embarrassed about sex-related matters because they are exposed to animal reproduction processes from an early age, and thus accept sexual intercourse as a fact of life. Furthermore, children may witness human intercourse at an early age because many rural families live in one room. However, it is difficult to accept that a substantial proportion of the many millions of condoms distributed each year could have been used as toy balloons in Pakistan, because the relatively conservative nature of Pakistani society would appear to be antithetical toward large-scale, overt use of condoms as children's toys. If, say, 50 million condoms per year were being used as balloons in Pakistan, the phenomenon would almost certainly have been witnessed by many people and reported much earlier. PSI's current study of Sathi availability in rural areas will probably shed some light on several issues, including balloon use, although the results are not expected to include quantification of balloon use. Continuing field monitoring among wholesalers and retailers, specially those who serve small towns, hamlets and villages might identify increases in demand for condom balloons if such increases occur. For the time being, it is likely that condom balloon sales are minimal, because the cheapest condoms now retail for the same price or more than conventional balloons.

8. *Declines in Distribution Volumes Were Caused By Price Increases.* The declines in Sathi sales for cross-border shipments, for condom balloons and for contraception were apparently caused by the price increases, not by declining supply. This appears to apply to the public brand as well as to Sathi although we do not have much direct information about former field distribution patterns of the public brand. The current price of 50 paisa for USAID-procured condoms appears high enough to inhibit or prevent sales to cross-border traffickers and for toy balloons.
9. *Total impact of the Price Increases on Sathi Users Is Not Yet Clear.* It is difficult to assess the total number of Sathi users who discontinued as a result of the price increase. Some probably dropped out, as indicated by the results of the user survey in 1991. Others may not have stopped using Sathi; they may be using fewer. Perhaps a few have substituted other contraceptive methods although this is unlikely since there is little evidence of such switching in any country. Also, we cannot be certain if PTA results apply equally in cities not covered by the PTA. But in PTA cities, at least, the decline in Sathi use for contraception appears to be substantial, particularly in smaller cities, although the declines were slow to show because they were masked by retailer-to-retailer sales.
10. *Affordability of Current Prices Among Non Users is Unclear.* Whether the current prices of Sathi condoms is too high for non-users, such as urban working class men, is a question that has not yet been addressed. Similarly, it is not known whether the price of the public brand is affordable to its target audiences. These questions are important because the government desires to reach to all levels of society with spacing methods, including condoms.
11. *Decisions About Future Price Increases Should Await Further Information.* This study indicates that price changes can have profound impacts on demand. Therefore, future changes in condom prices should be based upon information which can predict the effects of the proposed price change. It is too early to decide whether the current price of Sathi should be changed soon. The current price may be too high for our new, working-class target: such an hypothesis can be examined at a later date. Continuing monitoring of the new PTA results plus continued monitoring of the distribution trade will give some guidance about the risks and benefits of further increases in the retail price. It is recommended that further price increases should be deferred until (1) we have a better picture of the demand for contraception, (2) Rs 1.00 packs and Rs 1.50 packs are no longer in evidence in shops, and (3) the upcoming advertising and promotion campaign has been in operation for six months or more.
12. *Field Monitoring Should be Maintained.* Systematic monitoring of the distribution pipeline has shown its value. It should be maintained in order to help ensure that contracepting couples have access to Sathi while non-contraceptive use is limited. Monitoring should be seen as an integral part of Project assessment which aims to ensure that Project commodities are used to increase contraceptive prevalence in Pakistan.
13. *Distributors With Higher Than Expected Sales Should Be Capped.* A small number of distributors probably account for the majority of sales to cross-border truckers. Woodward should immediately cap sales to distributors who are known to have sold large quantities to truckers, with a view to reducing distributors' access to very large amounts of Sathi. Woodward should provide Demand & Dispatch Report to PSI each week to help PSI to identify and monitor certain distributors. PSI and Woodward should work together to review and modify the list of capped distributors from time-to-time.

14. *Forecasts of Long-term Condom Sales and Shelf-life Are Needed.* On the assumption that current stocks of condoms could outlast their shelf life, it will be helpful to undertake frequent sales forecasts and frequent laboratory testing of stocks. It will also be helpful to examine and supervise storage facilities frequently. Examination and supervision could be assisted by a trained storekeeper, such as a Woodward employee whose salary is currently being paid by the Project. Good supervision will help ensure that condoms are sent out from warehouses on a first-in-first-out basis.
15. *Total Demand For Condoms By Contraceptors Probably Declined to 45-48 Million in 1992.* If the calculation in Table 2 is used as the basis for actual consumption, about 55 million condoms were used in 1991 for contraceptive purposes in Pakistan. The correct number may be higher -- perhaps 60 million or more -- if there was underreporting in the DHS. But it appears that consumption of condoms for contraception in 1992 was lower than in 1991 because of drops in consumer demand for Sathi and for the public brand; total sales may be about 45-48 million condoms consisting of 34 million Sathi, about 3-4 million public brand and about 9-10 million other brands. A small fraction of the Sathi total will probably be sold to cross-border truckers.
16. *Sathi Sales May Be About 42 Million in 1993.* Tentative projections based upon the results of this study indicate that 1993 contraceptive sales of Sathi in Pakistan may be about 38-42 million in 1993 at the present retail price, while an additional 1-3 million may be shipped across borders. Calculations for this forecast included the following assumptions:
- a. Just prior to the decline in supplies of the public brand in 1989, Sathi condoms were selling at an annual rate of about 34 million and were probably used mostly for contraception in Pakistan.
 - b. The increase in the price of Sathi condoms to Rs 2.00 for a pack of four resulted in a decrease in retail sales for presumed contraceptive purposes.
 - c. Balloon sales and cross-border sales will account for less than 10% of Woodward's sales.
 - d. The current price of Sathi will not be increased.
 - e. Sathi sales will not be greatly affected by changes in supply or price of other existing brands.
 - f. Sales will benefit from natural population growth rate (of about 3% per year)
 - g. New promotion and advertising will increase consumer demand for Sathi.

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SALES REVENUE DEPOSITED BY WOODWARD

Date deposited	Sales Revenue for the month	Amount
September 3, 1991	July '91	786,825.28
October 1, 1991	August '91	755,958.16
October 31, 1991	September '91	829,102.44
December 15, 1991	October '91	342,536.29
January 8, 1992	November '91	11,219.06
February 9, 1992	December '91	189,004.55
April 2, 1992	January '92	1,125,381.48
April 25, 1992	February '92	1,303,595.52
May 7, 1992	March '92	208,044.84
June 3, 1992	April '92	211,847.04
July 2, 1992	May '92	237,317.76
August 18, 1992	June '92	450,833.28
Sub-total Sales Revenue for July 1991 - June 1992		6,451,885.70
Balance in Sales Revenue Account maintained by PSI as of August 31 including interest		6,440,331.20
September 3, 1992	July '92	208,198.02
October 6, 1992	August '92	473,288.58
November 4, 1992	September '92	653,344.44
December 7, 1992	October '92	528,213.44
Total amount deposited in 1992		8,314,721.18
Balance in Sales Revenue Account maintained by PSI as of December 31, 1992 including interest		6,388,336.68
January 7, 1993	November '92	584,704.20
February 4, 1993	December '92	876,584.70
March 03, 1993	January '93	847,078.00
Balance in Sales Revenue Account maintained by PSI as of March 31, 1993 including interest		10,653,892.28

Field Trip Report
Monitoring Condom Marketing, January 10-11, 1993

A. Places Visited

Peshawar plus towns and villages between Peshawar and Islamabad, as specified below.

B. Team Members

Jehanzeb Khan, MPW

John Davics, PSI

Saifullah Khan, WWP (January 11)

C. Objectives of the Field Trip

1. To examine the availability of Sathi in the Market.
2. To assess the impact of Sathi price increase to Rs. 2.00.
3. To examine Sathi's stock position at among the trade, ie, Distributors, Wholesalers and Retailers.
4. To discover the trade's attitude about future price increases.
5. To learn about Sathi being used for any other reason apart from Family Planning.
6. To learn whether Sathi is being smuggled out of Pakistan.
7. To learn about Sathi merchandising, specially retail visibility & POS material.
8. To observe quality of packaging, including prevalence of old packs.

D. Findings.

January 10

1. Attock. Attock is a small town near a military area. The distributor reported serving about 40 wholesalers and 250 retailers. He had adequate stocks of 4's and 12's. He reported receiving frequent and good service from WWP/Rawalpindi. He stated that if the price of Sathi were to be increased, his sales would drop.

Wholesalers were not visited because it was too early in the day for them to be open. Similarly, only a few retailers were open. A paan shop displayed Sathi and reported selling about 4 dispensers/week.

2. Jhangira. The town is small; it is surrounded by villages. The distributor reported serving about 15 wholesalers and 50 retailers, including village shops. He had ordered 11 cartons of Sathi 4's in December but had received only 3 (in January); he reported that a WWP officer had explained that the partial order was sent because WWP stocks were low. He reported that sales to wholesalers had dropped by 50% since 1990. He said he had not sold to smugglers.
3. Akora Khattak. This is a very small town. The wholesaler, Sharif Medical Stores, had no stocks. He had tried to buy from Peshawar distributor but that Sathi was not available. He said that his retailers had no stock.
4. Nowshera. The Distributor serves about 5 wholesaler and 200 retailers. He said that "WWP gives me a small quota: only 10 cartons of Sathi". The town was dry. Apparently, the town has been dry for some time.
5. Pabbi. The wholesaler in this very small place had stocks of Rs 1.50 Sathi manufactured in June, 1990. He said that sales had dropped when the price increased.
6. Peshawar. This is a large city. The distributor has been in place since June, 1992. The old distributor was dismissed. He uses two salesmen to service about 25 wholesalers plus 600 retailers. His Sathi records were a little difficult to understand, but it appeared he had received 323 cartons of 4's since taking on Sathi. He had about ten cartons on hand. In November, he received 63 cartons of Sathi 12's; it is not clear whether he had ordered 12's or whether WWP had substituted 12's for 4's. He had sold 24 cartons of 12's to Khalid wholesalers. He said he had not been selling to smugglers. He had stocks of "Together 3's and 12's and said he was set to help launch it soon.

Nearly all wholesalers in Peshawar were dry of Sathi. A few wall-dispensers of Sultan (1988 condoms) were available. Only a few medicine stores had Sathi stocks. Some general retailers had displays of Sathi. This less-than-adequate merchandising may be the result of a combination of a slightly passive distributor and religious conservatism.

January 11.

7. Charsadda. The distributor in this small town has no salesmen. He serves 8 wholesalers plus 50 retailers. Because he has no salesmen, he is probably quite passive -- filling orders received rather than going in search of orders. He received 160 cases of 12-pack in October-November; it is unclear whether he had ordered them or whether WWP had substituted for 4-packs.

Wholesalers were dry. Karachi General Stores reported that Sultan had been the smugglers' product but that Sathi is not.

A few general stores stocked Sathi. Medical stores did not. One retailer had a 12-pack with old price (Rs 2.50). He reported sales for balloon use in the past -- specially Sultan -- but said such sales had stopped in 1992.

8. Ismaila. This large village contains a few small shops. One shop had a 12-pack from which he sold single condoms. The man was not the shopkeeper; he said he did not know if some Sathi condoms were being sold for balloon use.
9. Nawankili. This village also had Sathi in one shop -- 4-packs.
10. Swaby. This small town has a distributor who serves about 5 wholesalers and 40 retailers. He noted that 10 cartons of 4's had arrived the same day.

A wholesaler had large stocks of Rs 1.50 stock as well as a large number of cartons of Sultan.

Retailers had stocks of 4's.

11. Ghazi. This small town near Punjab is a bright place with good display of Sathi. The medicine shops are semi-wholesalers.

E. Conclusions and Recommendations

1. Product. The total quantity of old stocks remains substantial and gives a bad image to Sathi. Such stocks should be bought back or exchanged for new stocks in order to improve the quality of the image. There was no strong evidence of smuggling, although the disposition of the large quantities of 12-packs bought by distributors toward the end of 1992 remains unknown. Balloon use seems very low; this is probably due to price: real balloons are now the same price as a Sathi. Old stocks of Sathi and Sultan should be tested by NRIFC with a view; when defective batches are found, it is a strong signal that the Project should buy back and destroy the them.

2. Price. A pattern is emerging, ie, men in larger cities can afford the new price of Sathi (Rs 2.00) but some small places, specially those visited January 10, could not. Another price hike would be very risky because it may result in a further decline of demand among users, specially in smaller towns, where people have less disposable income. Furthermore, a new price tag would probably cause the image of Sathi to deteriorate further as some customers would see some Sathi at Rs 1.50, some at Rs 2.00 and some at the new higher price. It is premature to consider asking the consumer to pay more when, in fact, the Project has other means of increasing revenue.
3. Distribution. Distribution to wholesalers decreased in the last quarter of 1992, causing stock-outs among many wholesalers. This situation should not occur: wholesalers are necessary, specially in smaller areas where retailers cannot obtain stocks directly from a distributor. When retailers have no stocks users have no condoms. Some distributors need to be taught how to store, record and market Sathi. Peshawar distributor probably has legitimate demand for more than his average of 60 cartons per month; perhaps 80-100 would be appropriate.
4. Promotion. Display of the dispenser in shops remains our strongest, and often our only promotional strength. The new A & P campaign, including new POS and mass media, will probably help to move stocks. It is imperative that distributors and wholesalers have adequate stocks of Sathi 4's before the campaign is launched.

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