PROFIT

Promoting Financial Investments and Transfers to Involve the Commercial Sector in Family Planning

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THE COMMODITIES PROCUREMENT ORGANIZATION (CEPEO) (BRAZIL)

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by

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The PROFIT (Promoting Financial Investments and Transfers) Project seeks to mobilize the resources of the commercial sector to expand and improve the delivery of family planning services in selected developing countries. The PROFIT Project is a consortium of five firms, led by the international management consulting firm of Deloitte Touche Tohmatsu and including the Boston University Center for International Health, Multinational Strategies, Inc., Development Associates, Inc., and Family Health International.

This report is part of a series of PROFIT Evaluation Reports, which examine the results of PROFIT subprojects within the following three strategic areas: innovative investments, private health care providers, and employer-provided services.

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We will use your comments and suggestions to improve our reporting and dissemination of the lessons and experiences of the PROFIT Project's work to involve the commercial sector in developing country family planning services.

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ACRONYMS

CEPEO	Contraceptive Procurement Organization
CYPs	couple years protection
DHS	Demographic and Health Survey
IPPF	International Planned Parenthood Federation
LIUSH	London International U.S. Holdings
NGO	nongovernmental organizations
OB/GYNs	obstetricians/gynecologists
PROFIT	Promoting Financial Investments and Transfers Project
SESAB	Secretariate of Health of the State of Bahia
SOMARC	Contraceptive Social Marketing III Project (USAID–funded)
TA	technical assistance
UNFPA	United Nations Family Planning Agency
USAID/G/PHN/POP	U.S. Agency for International Development's Office of Population
USAID	U.S. Agency for International Development

EXECUTIVE SUMMARY

After 30 years of funding population programs in Brazil, the U.S. Agency for International Development (USAID) plans to phase out population assistance by 2000 due to the country's high contraceptive prevalence rate. Part of USAID's phase-out strategy involved establishing a commercial company, the Contraceptive Procurement Organization (CEPEO), to supply high-quality, affordable contraceptives to the public sector, to the private sector, and to nongovernmental organizations (NGOs). The PROFIT Project, which is funded by USAID's Office of Population, established CEPEO with assistance from SOMARC and Pathfinder International.[1]

CEPEO is a small company that sells IUDs and other contraceptives through public sector commodity bids and sales to NGOs and private doctors. IUDs represent over 80 percent of sales, followed by condoms, diaphragms, and spermicidal jelly. CEPEO's principal market is the public sector, which represents 75 percent of sales. Between March 1995 and June 1997, 129,508 IUDs were sold, generating 453,278 CYPs (couple years protection).[2]

Implementation of CEPEO evolved through three phases:

- design (May 1992–December 1993)
- pre-operational implementation (January 1994–March 1995)
- subsidized operations (March 1995–present).

Pre-operational implementation took a year longer than expected due to complex company and product registration procedures and difficulties in hiring a general manager. CEPEO's product line was modified during this phase to focus on IUDs because pills and condoms were widely available through other

[1]The SOMARC III Project is a social marketing project funded by USAID's Office of Population. Pathfinder International is a nonprofit family planning organization based in the United States with programs in Brazil.

[2]A conservative CYP factor of 3.5 is used, lower than the factor of 3.9 years cited in Sotver et al., "Empirically Based Conversion Factors for Calculating Couple-Years of Protection." (Chapel Hill, NC: The Evaluation Project, February 1997).

commercial and donor sources. CEPEO is currently in the phase of subsidized operations, focusing on sales and marketing activities to achieve self-sustainability in 1997.

CEPEO succeeded in accomplishing its short-term goals. CEPEO sold more IUDs per year to social sector clients than USAID was donating per year. CEPEO maintained a lower price per IUD than its competitors. CEPEO is surpassing its revenue targets, and losses have been lower than projected. The company is expected to break even in 1997, on schedule with original projections. Over the long term, CEPEO planned to add new products, to be transferred to a local entity, and to contribute to an improved contraceptive method mix by expanding IUD sales. CEPEO added four new products and doubled its higher-margin IUD sales to private physicians. In 1997, as agreed with USAID, PROFIT managed the sale of CEPEO to local investors.

PROFIT's experience with this subproject provides several lessons about establishing a commercial supplier of contraceptives to address phase-out of donated contraceptives:

- Choice of a commercial supplier requires careful analysis of market niches, evidence that social sector organizations are willing and able to pay for contraceptive commodities, and a detailed financial analysis that demonstrates a potential for self-sustainability.
- Successfully implementing this strategy requires:
  - hiring staff with appropriate skills and experience
  - providing flexible funding to cover start-up costs and ongoing cash shortfalls
  - providing close supervision and technical assistance to guide and support the company through the start-up phase.
- Start-up of a commercial company in a developing country is time-consuming, and this time must be factored into planning.

INTRODUCTION

I.

The PROFIT Project is funded by the U.S. Agency for International Development's Office of Population (USAID/G/PHN/POP). PROFIT was designed to mobilize resources of the for-profit commercial sector to pursue family planning objectives. In Brazil, USAID resolved to phase out all population assistance, including donations of contraceptive commodities, by 2000 because of the country's high contraceptive prevalence. As part of USAID's phase-out strategy, PROFIT, with the assistance of the SOMARC III Project and Pathfinder International, established a commercial company, the Contraceptive Procurement Organization (CEPEO), to provide a reliable source of high-quality, affordable contraceptives to the public, private, and NGO sectors. This report reviews the evolution and evaluates the performance of the CEPEO from July 1994 to July 1997.

A. Brief Description of the CEPEO Subproject

USAID has been providing population assistance to Brazil since 1965, including donations of condoms, pills, IUDs, and other contraceptive commodities. In 1991, USAID resolved to end all population assistance to Brazil, primarily due to its relatively high contraceptive prevalence rate (76.7 percent in the 1996 DHS). As part of its phase-out strategy, USAID sought a long-term, self-sustaining mechanism to continue to supply NGOs and the public sector with quality, affordable contraceptives. Ideally, the mechanism would also contribute to improving the quality of family planning by promoting alternatives to female sterilization, which represents 40 percent of Brazil's contraceptive method mix. The mechanism selected was the establishment of a commercial company to sell contraceptive products to NGOs and public sector entities at reduced prices and to private doctors at market prices.

In 1994, PROFIT established CEPEO, a commercial distribution company. CEPEO began product sales in March 1995 and sells primarily IUDs (93 percent of sales in 1996), followed by condoms, diaphragms, and spermicidal jelly. The company is headquartered in Salvador, Bahia, the largest state in the northeast which is also Brazil's poorest region and the focus of USAID assistance. CEPEO works with local distributors in all the major markets in Brazil. CEPEO sells to state and municipal ministries of health through public bids and to NGOs and private doctors through congresses and telephone and mail orders.

PROFIT collaborated extensively with the SOMARC III Project and Pathfinder International to implement CEPEO. SOMARC provided marketing technical assistance and funding. Pathfinder, which managed the distribution of donated contraceptives for USAID, helped transfer its clients (public sector entities, NGOs, and private doctors) to CEPEO.

B. PROFIT's Role and Participation

PROFIT invested $700,000 for start-up costs and ongoing needs for working capital. PROFIT provided technical assistance to CEPEO, spending approximately $600,900 between April 1994 and August 1996, on core staff, travel, and support for a local office. PROFIT's technical assistance included:

- negotiating supplier agreements
- serving on CEPEO's Board of Directors
- preparing budgets, annual workplans, and marketing and business plans
- identifying, subcontracting, and managing local accounting firms and legal counsel
- developing a program to train private providers in IUD insertion
- managing the sale of CEPEO to local investors.

In addition, from May 1993 to July 1997, the SOMARC III Project provided $448,110 directly to CEPEO for marketing activities, and spent an estimated $240,000 for technical assistance in marketing.

C. Summary of Baseline Information

In order to measure the degree to which CEPEO made contraceptives available and affordable to Brazil's social sector (that is, to the public sector and NGOs), two types of baseline information were used:

- data on the volume of USAID commodity donations
- pricing of IUDs under USAID's commodity distribution program.

From 1990 to 1993, USAID donated 123,000 IUDs, 171,000 cycles of pills, and 90,248,000 condoms to Brazil. Donations continued during 1994–1996, but precise unit figures for all methods were not available.

From 1989 to 1995, Pathfinder operated a cost recovery program as part of its commodity distribution program. Recipients were asked to pay to cover program costs. ***Table I-1*** presents 1994 data for IUDs. Prices ranged between $5.81–$8.00 for public sector and NGO recipients and $18 for private

physicians and clinics. In 1994, the four major recipients of donated IUDs, which accounted for 35,500 units or 68 percent of the total, received the product for free.

Table I-1
Cost Recovery/Pricing of Donated IUDs
Under USAID Commodity Donation Program in 1994

Price	Recipients	IUDs
$5.81	1	6,500
$8.00	21	8,643
$13.00	45	1,240
$18.30	60	490
Free	4	35,500

D. Evolution of the Subproject

D.1. Design Phase (May 1992–December 1993)

PROFIT designed CEPEO and presented a detailed proposal to USAID which was approved in November 1993. The main assumptions behind the design of this project were:

- CEPEO should sell a full range of contraceptive products.
- Brazil's public sector and NGOs would only be able to pay cost or below cost, and therefore sales to these entities would be unprofitable.
- CEPEO would need substantial commercial sector sales and a diversified product line in order to attain sustainability.
- CEPEO would need an experienced pharmaceutical executive to be its general manager.

Under the original design, CEPEO's product line was to include IUDs from FEI Enterprises, the Depo-Provera injectable from Upjohn, and condoms and other personal health products from London

International U.S. Holdings (LIUSH). In addition, CEPEO was to earn royalties on sales of oral contraceptives by participating in a social marketing project with Schering and Wyeth.

D.2 Pre-operational Implementation Phase (January 1994–March 1995)

During this phase, PROFIT established CEPEO as a for-profit, limited-liability company; selected a general manager; negotiated supplier agreements for the IUD and condoms; registered the CEPEO IUD with the Ministry of Health; and opened offices in Sao Paulo and Salvador. This phase took approximately a year longer than anticipated, for several reasons. Registering the IUD product and securing all necessary legal documentation to operate the business proved much more complicated and time-consuming than expected. Finding and hiring a general manager, even with the assistance of a local professional firm, took over five months. PROFIT sought an experienced pharmaceutical executive, but, because CEPEO was a start-up company with a social mandate, the position was difficult to fill.

During this phase, CEPEO's product line was modified to focus primarily on IUDs. The events that shaped this modification are described below.

IUDs

PROFIT negotiated an exclusive agreement with FEI Enterprises, a U.S. manufacturer, to import and distribute the Copper T 380A IUD in Brazil. Product registration took almost 15 months, which was considered fast by local standards. Sales began in March 1995.

Condoms

From June 1993 to July 1994, PROFIT negotiated with LIUSH for CEPEO to act as the local agent to introduce LIUSH condoms and other health care products (gloves and pregnancy test kits) into the Brazilian market. In August 1994, LIUSH and CEPEO signed an agreement appointing CEPEO as LIUSH's local agent. However, in October 1994, LIUSH's general manager for Brazil was replaced, and, as a result, LIUSH's entry into Brazil was postponed and CEPEO's agreement with LIUSH was suspended.

Oral Contraceptives

CEPEO was to implement a social marketing program organized by the SOMARC Project and two large contraceptive pill manufacturers, Schering and Wyeth. This agreement was expected to contribute more than $600,000 in revenues to CEPEO over four years. However, Brazil's federal government lifted price controls on pharmaceutical products, allowing manufacturers to raise prices. As a result, in January 1995, Schering and Wyeth decided not to participate in the social marketing project because they would have had to offer pills at below-market prices. This unexpected event drastically reduced CEPEO's projected revenues. CEPEO resolved to not include this product in its product line because of the crowded market and the wide availability of pills in the private sector. Brazil's pill market has over seven local manufacturers that sell 15 brands. Over 88 percent of pill users buy the product in retail pharmacies, often without a prescription.

Injectables

In 1992 PROFIT began to negotiate with the Upjohn Company to introduce Depo-Provera in Brazil. In December 1996, after a four-year process, Depo-Provera was registered as a contraceptive product with the MOH. PROFIT and CEPEO have met with Upjohn to negotiate a distribution agreement. As of July 1997, Upjohn had not finalized its marketing strategy for Depo-Provera.

D.3 Subsidized Operations (March 1995–July 1997)

CEPEO began sales in March 1995, after registering the CEPEO IUD and hiring the former director of the Pathfinder Commodity Program as its salesperson. CEPEO is selling primarily the IUD, which represents over 80 percent of total sales revenue. During its first 18 months of sales, CEPEO sold almost the same number of IUDs (103,637) as USAID donated from 1990 to 1993 (123,000). CEPEO sold 55,832 IUDs in 1995, 58,749 in 1996, and 14,927 during the first half of 1997 (as of June). IUD sales have not been as strong in 1997 due to a lack of public sector demand.

There is no precise data on the size of Brazil's IUD market. Estimates range from 104,000 units per year (DHS, 1996) to more than 400,000 units per year (UNFPA Technical Report No. 21, 1994). Based on these estimates, CEPEO's share of the IUD market is between 15 and 50 percent.

CEPEO's principal market has been the public sector, which represents 67 percent of IUD sales. For public sector sales, CEPEO encourages key public sector officials to make family planning a budget priority and maintains the extensive documentation required to participate in public tenders.

CEPEO has focused on sales and marketing activities aimed at increasing sales to private physicians, for which the company earns a higher margin. CEPEO has participated in several medical congresses each year, designed brand-name packaging for its "CEPEO-T" IUD, advertised in local medical journals, installed two toll-free numbers for phone sales, and conducted regular mass mailings to more than 13,000 private physicians throughout Brazil. With assistance from PROFIT, CEPEO organized a provider training program in IUD insertion through eight training institutions in five states. As a result, sales to private doctors during the first six months of 1997 (10,160 units) were almost equal to the volume sold during all of 1996 (11,577 units). See ***Table II-6*** for a full breakdown.

CEPEO's success with the IUD can be attributed to several factors:

- There was limited competition when CEPEO entered the market. Brazil had only one significant commercial supplier, Organon, which sold the Multiload IUD at relatively high prices in a limited geographic area and with little promotion.
- CEPEO contracted the former manager of Pathfinder's donation program to be its salesperson. She quickly converted former recipients and buyers of the donated products into CEPEO customers.
- During 1995–1996, state and municipal secretariats of health dedicated increased resources for family planning programs, resulting in increased demand for IUDs.

The lower IUD sales to date during 1997 are a preview of the challenges facing CEPEO. Public sector demand is unpredictable, subject to political and budgetary constraints. Competition has increased with the entry of an Asian copy of the CEPEO-T into the market at a slightly lower manufacturing cost. Expansion of the IUD market is difficult because Brazil has one of the highest contraceptive prevalence rates in the world at 76.7 percent (DHS, 1996). Increased IUD sales will require convincing women and their physicians to choose the IUD over other methods.

In 1995, CEPEO explored commercial relations with several condom manufacturers, including LIUSH and Aladan in the United States and Polar in India, but no agreement was signed. In 1996 CEPEO resolved to sell condoms only on a small scale because of both intense competition and a lack of synergy with its IUD product. Specifically, four local condom manufacturers and several importers sell over 10 different brands of condoms in Brazil, and the World Bank is financing a federal Ministry of Health purchase of 200 million condoms to combat HIV/AIDS. In addition, over 75 percent of condom users purchase them in retail pharmacies (DHS, 1996) — a distribution channel that is completely different from that through which CEPEO sells its IUDs.

CEPEO sells small volumes of condoms to NGOs, private hospitals, physicians, and a health maintenance organization (HMO), as well as through public sector bids. CEPEO's sales of condoms

totaled 142,317 in 1995, 178,087 in 1996, and 208,418 during the first six months of 1997. CEPEO buys condoms from two other USAID–supported organizations:

- DKT do Brasil, a social marketing company based in Brazil that is working on HIV prevention by selling a low-priced condom called "Prudence"
- BEMFAM, the International Planned Parenthood Federation (IPPF) affiliate in Brazil, which launched a commercial business to sell and market the "Prosex" condom to contribute to its efforts to achieve self-sustainability.

In addition to IUDs and condoms, CEPEO sells related products: diaphragms, spermicidal jelly, nursing aids, diaphragm fitting rings, IUD insertion kits, falope rings, alligator forceps, pelvic models, and a recently designed and produced IUD uterine model. Combined sales of these products represent approximately 10 percent of total sales revenue. ***Table II-7*** presents unit sales of all contraceptive products for 1995–1997.

In November 1996, PROFIT presented USAID with several options regarding the future of CEPEO, which was owned by the PROFIT Project through The Summa Foundation[3]:

- maintain Summa Foundation as the owner of CEPEO (status quo)
- transfer CEPEO to a local entity (e.g., a family planning NGO)
- sell CEPEO.

In January 1997, PROFIT and USAID decided to sell CEPEO to a local person or organization that would maintain CEPEO's social mission and ensure its long-term financial viability. PROFIT planned and implemented a fair and transparent sale process to:

- identify as many potential buyers as possible
- screen potential buyers according to specific criteria established by PROFIT and USAID
- award CEPEO to the buyer with the best qualifications and highest bid.

Initially, eight potential buyers expressed interest in the company. Most withdrew from the process, as they perceived that they would not meet all of the criteria or as they completed their due diligence. Two

[3]PROFIT established The Summa Foundation as a nonprofit foundation incorporated in Arlington, Virginia, to hold the assets created through subproject investments.

investors bid on CEPEO. In July 1997, current management successfully bid approximately $100,000 to buy CEPEO. Legal execution of the sale is underway.

ACHIEVEMENT OF SUBPROJECT GOALS

II.

A. Summary of Goals and Data Collection Methods

The input goals of this subproject were to:

- create a local commercial company that distributes contraceptives to the social sector (government and NGOs)
- provide technical assistance to CEPEO staff in marketing and business
- implement marketing strategies to increase sales.

The short-term goals of the subproject were to:

- improve the financial performance of CEPEO
- generate IUD sales to trained physicians to cover CEPEO training costs
- make IUDs available and affordable to social sector (i.e., governmental and NGO) clients.

The long-term goals of the subproject were to:

- create a financially sustainable company
- establish a permanent source of contraceptives to the social sector in Brazil
- contribute to the expansion of Brazil's method mix.

The main data collected on the subproject included:

- ***Baseline data.*** Information on the volume of USAID-donated commodities and the price of IUDs before USAID discontinued the donation program were collated from Pathfinder records.
- ***Technical assistance.*** Monthly activity reports were provided by PROFIT's Country Representative.

- ***Training data*** were provided in the monthly activity and financial reports prepared by CEPEO staff members.
- ***Financial monitoring data*** included CEPEO monthly sales and financial reports, CEPEO audited financial statements, and competitor price surveys.

B. Inputs

Table II-1 presents the input goals, the measurable indicators of achievement of the input goals, the sources of information for the indicators, and the results to date. Input goals reflect the accomplishment of activities or the investment of resources by PROFIT or its partner, that are necessary for the subproject to achieve its short- and long-term goals.

CEPEO was unique among PROFIT's subprojects in that CEPEO was created by PROFIT and there was no commercial sector partner. Therefore, the creation of a commercial company fulfilling the mandate of distributing contraceptives to the public and NGO sector was considered an input goal. This goal was achieved in 1995.

While PROFIT sought to hire staff with marketing and business experience for CEPEO, technical assistance (TA) in these areas was assumed to be useful to CEPEO's success. The SOMARC III project was primarily responsible for providing marketing TA, but PROFIT also assisted in marketing activities. Specifically, PROFIT staff negotiated with several potential product suppliers and secured CEPEO's exclusive distribution agreement with FEI Enterprises for their CU-T 380A IUD. PROFIT played a major role in the preparation of CEPEO's marketing and business plans in July 1995, April 1996, and December 1996. PROFIT worked with CEPEO's financial manager to install a computerized accounting system. In addition, PROFIT provided TA to develop the IUD insertion training plan during 1996.

Provision and application of TA was hampered by unsatisfactory performance of two successive general managers. In August 1996, CEPEO's top salesperson was promoted to become the new general manager and has since applied TA more effectively. The new general manager and her administrative/financial manager successfully bid to buy CEPEO in July 1997.

Table II-1
Results of Inputs

Goal	Measurable Indicator	Source of Information	Status as of July 1997
For PROFIT to create a local commercial company that distributes contra-ceptives to the social sector	C Evidence of company's physical and legal existence C Percent of contraceptive sales to the social sector (government and NGOs)	C PROFIT staff visits to CEPEO offices C PROFIT legal files C CEPEO sales reports	C HQ office established. C All legal documentation was secured. C 88 percent of CEPEO unit IUD sales were to the social sector in 1995, 81 percent in 1996, and 19 percent in first half of 1997.
For PROFIT to provide technical assistance to CEPEO staff in marketing and business	C Amount of technical assistance provided by PROFIT C Results and/or deliver-ables stemming from technical assistance	PROFIT staff time sheet reports, monthly reports of PROFIT's Country Representative, and trip reports	C Approximately 1,300 days per year of PROFIT staff time (1994–1997) C Negotiation of exclusive distribution agreement with IUD manufacturer and assistance with preparation of marketing and business plans in 1995 and 1996
For CEPEO to implement specific marketing strategies to increase private and public sector sales	C Participate in and win public bids on an ongoing basis C Undertake mass mailings to private physicians C Establish an IUD training program for private physicians	CEPEO's monthly activity reports	C Won state and municipal bids since 1995 C Completed four mass mailings to over 13,000 physicians in 1996–1997 C Established an IUD training program in early 1996 and trained 286 physicians at ten training sites

Once CEPEO's marketing strategies were defined, CEPEO staff was given responsibility for implementing them. Marketing activities are critical to increasing CEPEO sales so that the company can achieve long-term financial sustainability. While CEPEO implements a variety of marketing strategies and activities, three are most significant in terms of resources needed to implement them and the expected impact on sales:

public bids

- mass mailings
- provider training.

Public commodity bids are an important way for CEPEO to sell contraceptives to the public sector, accounting for more than 60 percent of CEPEO's sales to this market. Participation in public bids requires registering and maintaining extensive documentation with each state and municipal agency. CEPEO has focused its efforts on the most active states and cities, including, for example, the Secretariat of Health of the State of Bahia (SESAB), the municipalities of Belo Horizonte, Sao Paulo, Porto Alegre, Campinas as well as public university hospitals and other public sector health agencies.

A mass mailing to private obstetricians/gynecologists (OB/GYNs) to promote the CEPEO IUD was seen as an efficient means to reach the more than 20,000 OB/GYNs in Brazil. This strategy was defined in 1995 and accomplished in August 1996. The delay was due to difficulties encountered in building the database of names and addresses and a lack of follow-through by the previous CEPEO management. The first mailing in August 1996 reached more than 10,000 private OB/GYNs and resulted in over 70 new clients in the following two months. To order product, physicians can call CEPEO's toll-free number or use the order form provided. All calls are handled according to an established protocol, and important sales and customer information is recorded in a database. CEPEO did three more mailings, in November 1996, March 1997, and July 1997. CEPEO's mailing list database has become a valuable asset because it is continuously updated and has grown to more than 14,000 names.

Provider training in IUD insertion was envisioned early on to be part of CEPEO's marketing strategy to increase sales and contribute to quality of care. Implementation was not achieved until 1996 due both to CEPEO's lack of training expertise and to a lack of follow-through on the part of the previous CEPEO management.

In early 1996, PROFIT worked closely with CEPEO staff to organize the IUD training program for private physicians. CEPEO's strategy was to sponsor IUD training at existing institutions. Development of the training program entailed site visits to approximately 15 different training institutions in five states to review facilities and negotiate the terms of the sponsorship.

The IUD training plan was submitted in February 1996 and approved for SOMARC funding in April 1996. CEPEO pays each institution $100 per trainee to cover costs and provides educational materials and IUDs. The total cost per trainee is approximately $175. Trainees pay nothing for the course. The plan called for a total of 255 physicians to be trained in 1996.

Training began in March, and 206 physicians were trained in 1996. The program trained fewer physicians than planned in 1996 due to the lengthy negotiation process with BEMFAM sites and the delay in identifying a training institution in São Paulo. The program continued in 1997, and as of July, 286

physicians were trained, and sessions had been scheduled for an additional 30 doctors. By September, a total of 316 doctors will have been trained, surpassing the original target of 225. CEPEO worked with several training institutions in seven states and the federal district (see ***Table II-2).***

Table II-2
CEPEO IUD Insertion Training Program

State	Training Institution	Number of Physicians Trained
Bahia	State Secretariat of Health of Bahia (SESAB)	23
Sergipe	Federal University of Sergipe with Pathfinder International	15
Rio Grande do Norte	BEMFAM/RGN (IPPF affiliate)	25
Alagoas	BEMFAM/AL (IPPF affiliate)	13
Rio de Janeiro	BEMFAM/RJ (IPPF affiliate)	14
Minas Gerais	Federal University of Minas Gerais (UFMG) Clovis Salgado Center (CEPECS) Odete Valadares Maternity Hospital	60 80 20
São Paul	Santa Casa de Misericordia Hospital	16
Federal District	Federal University of Brasilia	20
TOTAL		**286**

C. Short-Term Goals

Table II-3 presents the short-term goals, indicators, data sources, and results to date. Short-term goals are expected to be achieved before the closure of the PROFIT Project in September 1997.

Table II-3
Results of Short-Term Goals

Goal	Measurable Indicator	Source of Information	Status as of July 1997
For CEPEO to improve its financial performance	Achievement of financial targets	CEPEO's internally generated, monthly financial reports and audited annual financial statements	Actual revenue below target in 1994 and 1997 but above target in 1995 and 1996; loss less than target for 1994 and 1995, greater in 1996 and 1997.
For CEPEO's IUD provider training program to generate IUD sales to cover training costs	Percent of training costs covered by sales of IUDs to trained physicians	Training cost data from CEPEO financial reports and sales reports	C Training costs to date = $42,000 C Data on IUD sales to trainees not available.
For CEPEO to minimize the impact of withdrawal of USAID donations on the social sector by making contraceptives: C available to social sector clients C affordable to social sector clients	C Sales volume of CEPEO (sales $ USAID donations) C Average CEPEO price per unit compared to competitors' prices (for comparable volume) and the "price" requested for donated product C Amount of "social sector savings" on contraceptives generated per year	C CEPEO sales report and Pathfinder records of USAID's donations C Competitor price survey by CEPEO staff and Pathfinder records C Social sector savings = [competitor price/unit ! CEPEO price/unit] × CEPEO units sold to social sector	C CEPEO is selling IUDs and condoms but not pills or foam tablets. CEPEO IUD sales to social sector higher than average volume of IUDs donated by USAID. C CEPEO's average price is $9.17; competitors' are $10.27–$23.62; "price" for donated IUDs is $5–$8. C Estimated savings is $98,000.

Financial Performance

As a start-up company, CEPEO was expected to accumulate losses during the first few years and to break even—have sales revenue cover all costs—in its fifth year. ***Table II-4*** compares the company's projected and actual profit and loss statements from 1994 to May 1997.

Table II-4
CEPEO Financial Performance: Projected Versus Actual, 1994–1997 (US dollars)

Year		Revenues	Less Total Costs	Equals Profit (Loss)
1994	Projected	$364,665	$674,784	($310,119)
	Actual	$ 35,821	$156,146	($120,325)
1995	Projected	$387,740	$638,084	($250,344)
	Actual	$502,559	$710,615	($208,056)
1996	Projected	$460,099	$668,084	($207,985)
	Actual	$640,841	$895,211	($254,370)
1997 (January-June)				
	Projected	$269,900	$296,541	($53,282)
	Actual	$254,669	$419,800	($165,131)

Sources: 1994–97 projections from CEPEO Investment Document, Nov. 2, 1993, Appendix 12; 1994 actual from CEPEO management reports; 1995 and 1996 actual from audited financial statements; 1997actual from CEPEO management.

Note: Exchange rate R$1 = US$1

Revenue in 1994 was below projections because of delays in product registration and because the contract with Schering and Wyeth to social market pills was never implemented. The social marketing program was projected to contribute $644,000 in revenues over four years. Actual revenues in 1995 and in 1996 have surpassed original projections despite a narrower product line.

Losses have been covered by USAID funding through the PROFIT and SOMARC projects. Losses were lower than projected in 1994 and 1995 due to reduced costs reflecting a smaller product line and staff. Also, marketing focused on expanding IUD sales to private doctors and did not include mass IEC efforts, as originally planned in the pill social marketing program. The loss was higher than projected in 1996 due to the opening of a sales office in São Paulo and a restructuring of the company in August 1996. During 1997, public sector demand for IUDs, which historically has accounted for 75 percent of CEPEO's total IUD sales, has been negligible. To improve financial performance, the current management is working to reduce operating costs, including closing the São Paulo office, and has continued to emphasize growth in private sector sales, which doubled from 1996 to 1997. CEPEO management expects to break even by the end of 1997.

In summary, CEPEO has surpassed its revenue targets during most of its operating history. The recent fall in sales revenue is being addressed by cost reductions and continued aggressive marketing to

the private sector. After ownership of CEPEO is transferred to current management, the company will no longer have access to USAID funding through PROFIT, and profitability will become imperative for CEPEO's survival.

Provider Training

Funding for the IUD provider training has been provided by SOMARC. CEPEO must evaluate the costs and benefits of this activity in order to determine if it can continue to train doctors after external funding is exhausted. The criteria established was that sales of IUDs to trainees would need to cover at least 50 percent of training costs.

Training costs to date have totaled $42,000. Data on sales to trainees have been more difficult to collect than anticipated. The major problem has been that the training institutions buy the IUDs from CEPEO and then resell them to both trainees and others.

Supply of Contraceptives to the Social Sector

CEPEO was meant to minimize the impact of USAID's withdrawal of contraceptive donations on the social sector (public sector and NGOs) by making contraceptives available and affordable to social sector clients. This goal was measured in three ways:

- comparing the volume of contraceptives sold by CEPEO to the social sector to the volume of contraceptives donated to this market
- comparing the price that CEPEO charged to the price charged by competitors and the price that was requested for donated IUDs
- calculating the "savings" realized by the social sector by buying cheaper contraceptives from CEPEO.

Table II-5 presents volume comparisons between USAID donations and CEPEO sales, and shows that CEPEO succeeded in selling more IUDs each year to social sector clients than USAID was donating. However, CEPEO has not evolved as a major source of condoms for the social sector and does not supply any pills. As discussed earlier, there is extensive commercial supply of condoms and pills in Brazil and significant donations of condoms to combat the spread of HIV/AIDS.

Table II-5
Comparison of Volume of Contraceptives Donated by USAID and Sold by CEPEO to the Social Sector

Method	USAID Donations 1990–1993	CEPEO Social Sector Sales[1] March 1995–July 1997
IUDs (units)		
Total	123,000	100,991
Average/year	30,750	43,281
Condoms (units)		
Total	90,248,000	183,318
Average/year	22,562,000	78,565
Pills (cycles)		
Total	171,000	Not part of product line
Average/year	42,750	

[1] Does not include sales to private sector.

Given CEPEO's focus on the IUD, price comparisons were done for this product only. When CEPEO first entered the market in 1995, there were only two other IUD distributors, Organon and Medimport. Both priced their IUDs above $20 for private sector sales, and Medimport's social sector price was $10.27 (Organon does not sell to the social sector). From March 1995 to October 1996, CEPEO sold 89,300 IUDs to the social sector for an average price of $9.17, compared to $10.27 for Medimport, generating a savings of $98,231 for its social sector clients:

Medimport price & CEPEO price ' savings/unit x total CEPEO units sold ' total savings

$10.27 & $9.17 ' $1.10 *x* 89,301 *units* ' $98,231 *savings*

Since late 1996, Medimport has lowered its price to be comparable to CEPEO's prices, by importing an Asian copy of the CU-T 380A at a slightly lower cost per unit. Organon has also reportedly lowered its prices. While this increased competition may pose a threat to CEPEO, it is good news for Brazil and reflects the positive impact of CEPEO's entry into the market.

CEPEO's average price to social sector clients is also compared to the "price" paid by former recipients of IUDs donated by USAID to measure the degree to which the cost of commodities has risen

in the absence of donated product. From 1989 to 1995, Pathfinder operated a cost recovery program as part of its commodity distribution program. Recipients were asked to pay a price to cover program costs.

Based on 1994 data (see ***Table I-1),*** prices to public sector and NGO recipients ranged from $0 to $8.00. Four major recipients of donated IUDs, accounting for 35,500 units or 68 percent of the total in 1994, received the product for free. Twenty-two public sector and NGO entities paid either $5.81 or $8.00 per IUD. Therefore, most former donor recipients are now paying from $1.17 to $9.17 more for each IUD since the end of Pathfinder's commodity distribution program in March 1995. There are two important exceptions. BEMFAM, the IPPF affiliate, which used to get free IUDs from USAID, plans to source from IPPF in the future. Second, CEPARH, a family planning NGO in Salvador, also plans to seek donated product.

While CYPs (couple years of protection) was not included as an evaluation indicator for CEPEO, it is noteworthy that over the first 18 months, CEPEO's sales of 103,637 IUDs generated 368,116 CYPs, one of the highest of any USAID supported program in Brazil.[4] Also, in 1995, CEPEO was the sixth-largest social marketer of IUDs in terms of unit volume among USAID social marketing programs worldwide.[5]

D. Long-Term Goals

Table II-6 presents the long-term goals, indicators, data sources, and results to date.

[4]CYP factor of 3.5 used for IUD. Estimated CYPs of other programs supported by USAID in Brazil during same time period are BEMFAM 350,391; DKT 274,083; and SESAB 103,820.

[5]1995 Contraceptive Social Marketing Statistics, DKT International, August 1996.

Table II-6
Results of Long-Term Goals

Goal	Measurable Indicator (Target)	Source of Information/Instrument	Status as of July 1997
For CEPEO to become financially self-sustaining	C Total revenues that cover total costs on an annual basis C Target is 100 percent by 1997 C Number of new products launched	C CEPEO's internally generated financial reports and audited financial statements C CEPEO sales report	C Percentage of costs covered by revenues: 1994: 23 1995: 70 1996: 72 1997: 60 C Three new products launched.
For CEPEO to be-come a perma-nent source of contra-ceptives to the social sector in Brazil	Ownership transferred to a local entity committed to the company's social mission by September 1997	CEPEO bylaws and profile of new owners	CEPEO sold to current management through competitive bidding process.
For CEPEO to contribute to expanding Brazil's method mix through contraceptive sales	C Volume of contra-ceptives sold by CEPEO C Increased use of other modern methods in Brazil's method mix	C CEPEO sales report C Brazil DHS or market research	C IUD sales have surpassed projections. C Sales of other methods (condom, diaphragm, jelly) are very limited. C Data is unavailable on the impact of IUD sales on method mix.

CEPEO was designed under the assumption that the company would become financially self-sustaining in order to be a long-term source of low-priced contraceptives for the social sector. Financial sustainability was defined as total revenues that covered 100 percent of total costs on an annual basis. Revenues do not include any external funding. For a start-up company, CEPEO has progressed quickly toward financial sustainability. Current expectations are that CEPEO will meet its target and break even in 1997.

One important long-term strategy that CEPEO is pursuing to achieve financial sustainability is to diversify its product line. CEPEO is vulnerable because a single product, the IUD, represents over 80 percent of sales. CEPEO efforts to expand its product line have been ongoing since 1994 and include contacts and negotiations with manufacturers of condoms, pills, HIV tests, injectables, and other products. Since late 1996, CEPEO has added three new products:

- consulting/technical assistance services to state secretariats of health in contraceptive logistics management and training
- alligator forceps for safe and easy removal of IUDs
- small, hand-held uterine models for family planning counseling and education, and large pelvic models for provider training.

CEPEO's second long-term goal, to become a permanent source of contraceptives to Brazil's social sector, required transferring ownership of the company before closure of the PROFIT Project in September 1997. CEPEO has been owned by The Summa Foundation, a 501(c)(4) nonprofit foundation incorporated in Arlington, Virginia, to hold the assets created through PROFIT's subproject investments. In January 1997, PROFIT and USAID resolved to sell CEPEO to a local person or organization that would maintain CEPEO's social mission and ensure its long-term financial viability. In 1997, PROFIT implemented the following sale process:

1. Sent letters to 20 organizations and individuals to invite them to buy CEPEO, and advertised the sale of CEPEO in the *Gazetta Mercantil*, Brazil's largest business newspaper. All interested parties were informed of the sale process and the criteria that would be used to evaluate the qualifications of potential buyers.

2. Asked all interested parties to respond to a questionnaire regarding their qualifications, especially regarding commitment to CEPEO's social mission and likelihood of ensuring CEPEO's long-term viability. Each party was given a technical score based on the information provided.

3. Provided all interested parties with a copy of an independent valuation of CEPEO done by Ernst & Young, an information memorandum, and an opportunity to visit CEPEO headquarters to review financial reports, inventory, and other assets, as well as to interview staff members.

4. Determined the buyer by calculating a final score comprised of the technical score (two-thirds) and the bid (one-third).

In July 1997, current management successfully bid approximately $100,000 to buy CEPEO. Preparation of the legal documents to transfer ownership is underway. Achievement of this goal was considered particularly successful because:

- The new owners have a high probability of ensuring that CEPEO is a permanent source of contraceptives for Brazil's social sector.

- The process was fair and transparent, and it maximized the return for USAID.
- The transaction will be completed before the closure of the PROFIT Project.

CEPEO's third long-term goal is to contribute to broadening Brazil's method mix through the sale of modern methods. Brazil's method mix has been dominated by female sterilization since the 1980s. According to DHS data, female sterilization was used by 25 percent of women in union in 1986, 38 percent in 1991, and 40 percent in 1996. CEPEO's primary product, the IUD, is a good alternative to female sterilization because it is a long-term method (10 years) that is reversible. CEPEO sales of contraceptive products are shown in ***Table II-7.***

Table II-7
CEPEO Contraceptive Sales, 1995–1997 (units)

Product	1995 (March–December)	1996 (January–December)	1997 (January–June)	Total
IUDs				
Private	6,780	11,577	10,160	28,517
NGOs	8,410	3,720	2,002	14,132
Public	40,642	43,452	2,765	86,859
Total	55,832	58,749	14,927	129,508
Condoms	142,317	178,087	208,418	528,822
Diaphragms	66	435	256	757
Jelly	41	614	194	849

As discussed above, CEPEO's IUD sales have surpassed projections, are greater than USAID donations, and represent a sizeable share (estimated at 17–50 percent) of the total market. Sales of other contraceptive products are very limited and are not expected to have any impact on method mix. Given that CEPEO has operated for only two-and-a-half years, evaluation of actual impact on the country's method mix was not possible.

CONCLUSIONS AND LESSONS LEARNED

III.

A. Conclusions

- PROFIT was able to create and sell a commercial company with a social mission to private investors who have a strong commitment to its social mission and can operate the company independently over the long term.
- Making the transition from donated to commercial supply of IUDs was possible in Brazil.
- Start-up of a commercial company in Brazil was time-consuming due to local bureaucracy and the difficulty of hiring a commercial sector executive to run a USAID–supported company.
- An experienced pharmaceutical executive, accustomed to working within a large organization, was not necessarily the ideal profile for CEPEO's general manager because CEPEO is a small, start-up company.
- A key factor in CEPEO's success has been its hiring of the former manager of Pathfinder's commodity distribution program, in particular because of her client contacts in the social sector, technical knowledge of the product line, and familiarity with USAID.
- Prior efforts by USAID and Pathfinder to recover costs from recipients of donations were the ground work for transferring recipients to a commercial supplier.
- Brazil's social sector (public entities and NGOs) has purchased contraceptives at a price above the product's cost, although long-term continuity of such purchases is unclear.
- CEPEO is meeting its short-term financial targets and may likely achieve sustainability as a "one-product" company selling primarily to the social sector.
- There is no need for CEPEO to sell a full range of contraceptives, specifically pills and condoms, because these methods are widely available from other commercial and donor sources.
- The impact of CEPEO's provider training on Brazil's method mix and CEPEO's IUD sales is difficult to measure, and, consequently, the benefit of continuing this activity is unclear.
- PROFIT tentatively concludes that, in the long run, the benefits generated by CEPEO will outweigh the costs. USAID spent an estimated total of $2 million to establish and operate CEPEO. The

benefits include 453,278 CYPs in 2.5 years, direct cost savings of $98,231 for social sector buyers of the IUD, indirect cost savings for all IUD buyers due to the decline in the market price of the IUD, and, potentially, the value of increased use of the IUD. Most of these benefits will continue to accrue as long as CEPEO operates.

B. Lessons Learned

Options available in a particular country need to be analyzed in order to select the best mechanism to address donor phase-out of donated contraceptive commodities.

Planners and funding agencies should apply cost-benefit analysis to the process of analyzing options to address phase-out of contraceptive commodities and to the evaluation of the chosen strategy.

Creation of a commercial company as the mechanism to address donor phase-out of donated contraceptive commodities requires:

- careful analysis of the market for each contraceptive method to find niches
- evidence that the country's social sector organizations, including former donation recipients, are willing and able to pay for contraceptive commodities
- detailed financial analysis that demonstrates that the proposed company has potential for self-sustainability.

In order to successfully establish a self-sustaining commercial supplier of contraceptives, it is important to:

- hire a general manager and salespeople with appropriate skills and experience
- provide flexible funding to cover start-up costs and ongoing working capital needs
- provide close supervision and technical assistance to guide and support the company through the start-up phase.

Planners should take into consideration the time-consuming nature of starting up a commercial company in a developing country.