

**COMMODITIES PROCUREMENT
ORGANIZATION PROJECT
(CEPEO) EVALUATION**

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by

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The observations, conclusions, and recommendations set forth in this document are those of the authors alone and do not represent the views or opinions of POPTech, BHM International, The Futures Group International, or the staffs of these organizations.

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ABBREVIATIONS

AIDS	acquired immunodeficiency syndrome
BEMFAM	<i>Sociedade Civil Bem-Estar Familiar No Brasil</i> (Brazil)
CA	Cooperating Agency
CIF	cost (of the commodity) plus (ocean) freight
CPAIMC	<i>Centro de Pesquisas de Assistencia Integrada a Mulher e Crianca</i> (Brazil)
Cr\$	Cr\$1 = US\$.98, Brazilian <i>Cruzeiro</i>
CTO	Cognizant Technical Officer
CYP	couple year of protection
DHS	Demographic Health Survey
DMPA	Depo-Provera (trade name for medroxy-progesterone acetate)
FEBRASGO	Brazilian Association of Obstetricians and Gynecology
FEI	IUD supplier to CEPEO
FPSD	Family Planning Services Division (Office of Population, USAID)
G	Bureau for Global Programs, Field Support, and Research (USAID)
GDP	gross domestic product
GNP	gross national product
HMO	health maintenance organization
HPN	health, population, and nutrition
IEC	information, education, and communication
IPPF	International Planned Parenthood Federation
IUD	intrauterine device
JHPIEGO	Johns Hopkins Program for International Education in Reproductive Health
LAC	Latin America/Carribbean Regional Bureau (USAID)
MOH	Ministry of Health (multiple countries)
MWRA	married women of reproductive age
NGO	nongovernmental organization
OB/GYN	obstetrics/gynecology
OC	oral contraceptive
P & E	Policy and Evaluation Division (Office of Population, USAID)
PCS	Population Communication Services project (Johns Hopkins University)
PHN	Center for Population, Health and Nutrition (USAID)
POP	Office of Population (USAID)
POPTech	Population Technical Assistance Project
PROFIT	Promoting Financial Investments and Transfers Project
SESAB	public sector of Bahia
SOMARC	Social Marketing for Change project

STD	sexually transmitted disease
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development
USAID/W	USAID/Washington
WHR	Western Hemisphere Region (IPPF)
WRA	women of reproductive age

EXECUTIVE SUMMARY

From the original investment document on which the Commodities Procurement Organization Project (CEPEO) design was based, it is clear that a long-term financially sustainable entity was expected that could (1) provide quality, affordable contraceptives to the social sector of Brazil; (2) improve the overall contraceptive method mix; (3) increase correct contraceptive use; and (4) expand the overall use of contraception.

The objectives of CEPEO seem to have changed over time without explicit acceptance or approval from all primary project stakeholders: the United States Agency for International Development in Washington, D.C., (USAID/W), USAID/Brazil, the Promoting Financial Investments and Transfers (PROFIT) project, and the Social Marketing for Change (SOMARC) project. Changed conditions as well as re-analysis of continuing conditions do, however, support modification of the original CEPEO project objectives.

Relevant USAID offices (USAID/Brazil/HPN, USAID/G/PHN/POP/P&E, USAID/G/PHN/POP/FPSD/SOMARC Cognizant Technical Officer [CTO], and USAID/G/PHN/POP/FPSD/PROFIT CTO) should adopt some mechanism for regular joint communication and review of both assistance provided to CEPEO and CEPEO performance. More direct communication among USAID/Brazil/HPN and the PROFIT and SOMARC CTOs in USAID/G/PHN/POP/FPSD would be useful in identifying areas of concern and opportunities for project improvement in a timely way.

CEPEO has found a small business niche? sales of intrauterine devices (IUDs)? that appears to represent a "reasonable risk" opportunity for CEPEO's financial sustainability by 1998. This niche allows CEPEO to play a useful role in the Brazilian family planning environment to the extent that CEPEO ensures the availability of high-quality, lower-priced IUDs to service providers in the public and private sectors.

The disparity between original "big business" expectations for CEPEO and its current "small business" reality, however, inhibits appreciation of CEPEO's accomplishments. During 18 months of IUD sales, CEPEO has distributed almost as many IUDs (103,637) as distributed by USAID (123,000) during a four-year period. Couple years of protection (CYP) provided by CEPEO's IUD sales (360,500) exceed the CYP provided by *Sociedade Civil Bem-Estar Familiar No Brasil* (BEMFAM) activities (350,000) and DKT condom sales (270,000) during the same 18-month period. To date, USAID/W and USAID/Brazil have spent approximately US\$1,790,000 on support for CEPEO. This figure represents US\$4.97/CYP provided by CEPEO.

Concentration on expansion and solidification of IUD sales appears to be the most reliable and cost-efficient means for CEPEO to achieve financial self-sustainability in the near term.

Future selection of any new product (whether contraceptive or non-contraceptive) for the CEPEO line should be based on the following criteria:

- ? Sufficient level of unmet need for significant sales potential
- ? Relatively easy availability of the product for purchase by CEPEO
- ? Availability to CEPEO at a sufficiently low price to allow for profitability within a competitive retail price range
- ? Capability of being sold through CEPEO's existing sales and distribution channels

The assessment team recommends that CEPEO continue to receive funding and technical assistance from PROFIT and SOMARC through 1997. (Both the SOMARC and PROFIT contracts expire in late 1997.) If CEPEO is unable to sustain itself through sales of IUDs by that time, however, CEPEO should be allowed to fail. If the conditions of the environment in which CEPEO must work will not or cannot support project success (financial sustainability), continuing donor funding will not lead to that success.

Technical assistance provided to CEPEO during 1997 by PROFIT and by SOMARC should focus on those areas most likely to maximize CEPEO's potential for success within existing market conditions: small business financial management and strategic marketing planning. All technical assistance should be tightly focused and have bottom-line accountability. CEPEO must be assisted and managed like the small commercial entity it must be if it is to continue to exist.

CEPEO management needs to be empowered to take an increasingly proactive role in identifying, requesting, and evaluating the usefulness of the technical assistance it receives.

1. INTRODUCTION

The Commodities Procurement Organization (CEPEO) was conceptualized by the Promoting Financial Investments and Transfers (PROFIT) project and the United States Agency for International Development (USAID)/Brazil to address a perceived need to diversify the contraceptive method mix in Brazil and to provide an inexpensive source of commodities for organizations that had become dependent on free commodity donations from USAID in light of USAID's impending departure from Brazil. The northeast states of Brazil represented the lower-income populations and had lower contraceptive prevalence rates than the rest of the country. Therefore, northeastern Brazil was selected as the area of concentration for the project.

CEPEO was designed to become self-sufficient in the short period of four years. At the time of conceptualization, it was anticipated that such an organization would assume the procurement and distribution of a number of contraceptive products being funneled through Pathfinder, which was selling, through a subentity, the products at a symbolic price to the public sector and to the not-for-profit sector in Brazil. Furthermore, it was believed that CEPEO would become financially viable in the short term because of this "core" of business being transferred to it.

The company and product registration processes required much more effort than had been anticipated, and this extra effort delayed the start-up activities of product procurement and sales. However, optimistic advisors and management of CEPEO continued to report that sustainability was possible and, in fact, could be achieved earlier than expected. These optimistic reports were passed on through the channels of the USAID bureaucracy. Such rumors of "success" only intensified the apparent failure of CEPEO to meet any of its originally stated objectives. Poor performance ratings of CEPEO's management staff, negative cash flow situations, and a lack of evidence that the original project objectives were being met or in some cases even addressed, all called for an independent assessment of the utility of such an organization and a clarification of its role in contributing to the family planning objectives of USAID/Brazil.

The independent evaluation organization, POPTECH, was contracted by USAID/Brazil to locate and deploy a two-person assessment team consisting of a Senior Marketing Advisor and a Private Sector Specialist, who would provide recommendations concerning the viability of the CEPEO organization and its future needs. The team met in Washington with Washington-based representatives of the concerned Cooperating Agencies (PROFIT and Social Marketing for Change) during the week of 7 October 1996. Interviews with CEPEO staff members, local representatives of USAID's Cooperating Agencies, and representatives from Brazil's commercial sector were held during the two weeks of 13 and 20 October 1996. This document reports the findings of the POPTECH assessment team. Information is based on personal interviews with a number of relevant informants (see Appendix A, List of Persons Contacted) and on the review and analysis of documents provided to the team by POPTECH, USAID, PROFIT, Social Marketing for Change (SOMARC) project, and CEPEO (see Appendix B? List of

Documents Reviewed).

This report is organized according to the Scope of Work provided to the team by POPTECH and USAID/Brazil. Principal conclusions of the assessment team are given at the end of each subsection, and recommendations are given at the end of each larger section. A summary of recommendations grouped according to the agency primarily responsible for implementing each recommendation is provided in Section 5.

2. ROLE OF CEPEO

2.1 Objectives of CEPEO

Assess "the validity and appropriateness of CEPEO's original objectives. How appropriate and valid are they today and for the future?"

A clear understanding of any organization's objectives is important in assessing both the effectiveness of its implementation strategies and its impact on its environment. The objectives of CEPEO seem to have changed over time.

Because sustainability figures so prominently in virtually every iteration of CEPEO's project objectives, and because the need for sustainability informs almost all project decisions now being made, the assessment team believes it is necessary and helpful to define the term "sustainability" as used throughout this document:

Sustainability: The term sustainability has been used throughout the development community to describe various sets of circumstances. It has been broken down into different components to identify specific residuals expected from donor-supported activities (e.g., Social Sustainability, Economic Sustainability, Benefit Sustainability, and Financial Sustainability). Throughout this document, the assessment team has used the term as understood from review of the CEPEO Investment Document and Business Plan(s). Therefore, sustainability is *the ability of an organization to maintain its intended social benefit to the entities it serves while recovering all expenses related to the delivery of its service or product through commercial activity alone.*

2.1.1 Statements of CEPEO Objectives

The original objectives of CEPEO were stated in the PROFIT project Investment Document, dated November 1993, as follows:

"PROFIT is proposing a project involving a commercial start-up venture...to be located in the state of Bahia, Brazil...

- ? To obtain long-term sustainability to ensure continuity of its social objectives by commercializing contraceptives and other health products;
- ? To make available high-quality, affordable contraceptives to the social sector in Brazil [after USAID's phase-out of contraceptive donations];

- ? To promote modern contraceptives to increase the size of the market and contribute to a wider contraceptives method mix in Brazil; and
- ? To increase the correct use of modern contraceptives through development of communication campaigns and other marketing efforts."

The "Proposed Modified Business Plan for the CEPEO in Brazil" dated 6 July 1996 states, "The primary purpose of the CEPEO is to provide a reliable and sustainable alternative supply of quality and affordable contraceptive products for Brazil's social sector that has depended on USAID. To fulfill this goal, the CEPEO also sells contraceptive products to the commercial sector at a profit."

The "CEPEO in Brazil Business Plan for 1996" states the "company goals" as follows:

- ? "Continue to serve government and nonprofit family planning programs and organizations in Brazil by supplying low-priced, high-quality contraceptive commodities.
- ? "Diversify its product line and customer mix to become stronger commercially and financially.
- ? "Contain the company's net loss to less than 20 percent of total sales (CEPEO is projected to break even in 1997 and make a profit in 1998)."

Principal Conclusions:

- ? The changes in CEPEO project objectives as written are substantial.
- ? It is not clear to what extent the apparent changes over time in CEPEO project objectives have been understood or accepted as "official" by all project stakeholders. This statement may indicate a lack of effective communication or coordination among USAID offices involved in this project: USAID/Brazil/HPN, USAID/G/PHN/POP/P&E, USAID/G/PHN/POP/FPSD/SOMARC, and USAID/G/PHN/POP/FPSD/PROFIT.
- ? Successful implementation of the CEPEO project and meaningful evaluation of project accomplishments require that there be one clearly stated and universally acknowledged set of project objectives.

2.1.2 Changes in the CEPEO Environment

The degree of relevance of family planning program objectives can vary over time as

commercial sector regulations, public sector health care policies, and other aspects of the service delivery environment change. At the time of the CEPEO project design in 1993, the following conditions appear to have existed in the family planning environment:

- ? Brazil is a large country with a relatively high per capita gross national product (GNP) (approximately US\$3,000). This fact appears to support the likelihood of financial self-sustainability for a well-run commercial entity that supplies needed products.
- ? USAID was initiating its phase-out plan for providing free or low-cost contraceptive products to selected public sector agencies and nongovernmental organizations (NGOs). It was feared that these organizations, whose clients came primarily from underserved segments of the family planning market, would thereafter have no regular, affordable source of contraceptive supplies. These entities, additionally, would be a "ready-made" customer base for any new supplier of such contraceptive products.
- ? Sterilization was widely regarded as illegal. Tubal ligations, while widespread, were done in conjunction with cesarean section deliveries. It was thought that the desire for a long-term contraceptive method might be a significant contributing factor to the excessive number of cesarean sections being performed in Brazil.
- ? The most recent national contraceptive prevalence data available in 1993 were from the 1986 Demographic and Health Surveys project (DHS). In 1986, the overall prevalence of modern contraceptive method use among married women of reproductive age (MWRA) was 57 percent. A 1991 survey conducted in the northeast region alone indicated a prevalence of modern contraceptive method use among MWRA in that area of 53.7 percent.
- ? The overall contraceptive method mix was heavily weighted toward tubal ligation and oral contraceptives. It was felt that wider knowledge and acceptance of intrauterine devices (IUDs) as a long-term method alternative to tubal ligation would significantly (1) reduce the potential for negative political reaction to relatively large number of young women (in their 20s) receiving tubal ligations, (2) reduce the possibility of future consumer adverse reaction to family planning in general due to remorse over early-age tubal ligation, and (3) reduce the potential for public perception of current tubal ligation practices as coercive. Perhaps the degree to which this high incidence of tubal ligation among married women of reproductive age might limit the potential for method switching was not fully appreciated at this time.
- ? The prices of oral contraceptives were controlled by government regulation. Consequently, there was not a great deal of commercial interest in further promoting oral contraceptive sales.

- ? There was no commercial source in Brazil for a high-quality, lower-priced IUD (i.e., an IUD lower priced than Multi-Load, a traditionally high-end brand).

The availability of new research-based information and of change in the Brazilian marketplace since 1993 reflect an environment in 1996 that is different in at least several important respects from the one perceived at the time of CEPEO project design. Current conditions in the family planning environment that are particularly relevant to the CEPEO project are as follows:

- ? The 1996 DHS for Brazil reports an overall prevalence of modern contraceptive use by MWRA of 70.3 percent. Prevalence of modern contraceptive use among MWRA in the northeast region of Brazil is reported at 62.3 percent.
- ? Shifts in the contraceptive method mix (i.e., shifts away from tubal ligation toward IUD, injectable, and barrier method use) that were projected by the United Nations Population Fund (UNFPA) in its estimate of contraceptive consumption for Brazil have not yet occurred, according to the 1996 DHS. In fact, the UNFPA estimate for IUD use in 1996 was three times the rate of use reported by the 1996 DHS (i.e., 3.6 percent versus 1.1 percent).
- ? The continuing high incidence of tubal ligation among married women of reproductive age limits the degree to which method switching (and, therefore, changes in the method mix) can occur among current users of contraceptives.
- ? USAID-funded interventions aimed at training service providers and educating consumers to encourage shifts in contraceptive use away from tubal ligation and toward other, reversible, long-term contraceptive methods have been limited since 1992 to selected areas within the northeast region of Brazil.
- ? It does not appear that any governmental or donor agency, either domestic or international, is prepared to undertake the levels of provider training, policy reform advocacy, and consumer education required to achieve a significant shift in Brazil's overall contraceptive method mix.
- ? The commercial regulatory environment continues to be quite hostile to importing such products into Brazil. Despite apparent high-level reversal of previous protectionist policies (e.g., the Uruguay Round of international trade negotiations), implementation of the bureaucratic processes required to start and operate businesses[?] especially businesses dependent on imported products[?] remain time consuming, sometimes capricious, and extremely difficult to bring to conclusion.
- ? Oral contraceptives are widely available in the commercial marketplace. At least one brand, Microgynon, is sold at a retail price of Cr\$2.70 per cycle, which is regarded by

social marketers and commercial marketers in Brazil as an affordable price for anyone regularly operating within the cash economy.

- ? Several low-priced condom brands are now available in the commercial market in Brazil. Additionally, huge quantities of condoms are entering the country either as donations from foreign agencies or as purchases by the federal government for free distribution.
- ? DepoProvera (DMPA) remains unregistered by the Ministry of Health for use as a contraceptive. The Pharmacia Upjohn country manager recently estimated that, at the current rate of progress, it could be another year before the registration of DepoProvera is completed.

Principal Conclusions:

- ? Armed with the preliminary results of the 1996 DHS, the assessment team does not support the creation of a CEPEO-type organization as described in the CEPEO Investment Document.
- ? Changes in the family planning and commercial environments in Brazil since the initiation of the CEPEO project as well as a reassessment of continuing conditions in those environments support the validity of modifying the original objectives of the project.

2.1.3 Needed Changes in Original Objectives

Changed circumstances and improved knowledge of the family planning environment in Brazil appear to call for modifying the CEPEO project's original objectives, as stated in the CEPEO Investment Document.

Although the financial resources made available to CEPEO to achieve its family planning objectives may have been appropriate to the limited geographic scope of the state of Bahia, the limited revenue potential presented by this state has not allowed for achievement of the self-sustainability objectives of the project. CEPEO, therefore, has had to expand its sales and marketing activities to a considerably broader geographic area. The discrepancy between CEPEO resource levels and the overall size of the national market in which it has had to operate tends to minimize its impact. (See Section 4.4 for a discussion of future financial assistance to CEPEO.)

It is not reasonable to expect that the marketing efforts of CEPEO will "increase the size of the [contraceptive] market" in a country with a reported rate of 70.3 percent of married women of

reproductive age (MWRA) using modern contraceptive methods of 70.3 percent. According to the 1996 World Population Data Sheet, this prevalence rate equals that of South Korea and exceeds that of France, Japan, the United States, and Canada. It is unlikely that the overall market in Brazil for modern methods of contraception will grow significantly above this level. (This issue is discussed more fully in Section 2.4.1.)

It is very unlikely that CEPEO can significantly "contribute to a wider contraceptives method mix in Brazil." The principal shift in method mix desired by family planning program planners and managers in Brazil is moving away from early-age tubal ligation and toward increased early age use of IUDs and injectable contraceptives. DepoProvera remains unregistered by the Ministry of Health (MOH) for use as a contraceptive in Brazil. Once DepoProvera is registered, its successful introduction will likely require a considerable investment in provider education regarding user management and counseling. Sales of DepoProvera in other countries have started much more slowly than expected by Upjohn because of private physician[?] especially obstetrics/gynecology (OB/GYN)[?] resistance to the method. (See Section 2.4.3) To increase demand for and use of IUDs to the extent that there is an observable shift in the overall method mix will likely require significant investments nationwide in provider training, policy reform in areas such as medical barriers to method provision, and consumer education. (See Section 2.4.2.) CEPEO's ability to increase demand for IUDs[?] that is, increase the number of providers and consumers who seek IUD supplies[?] is limited by the staff and financial resources at CEPEO's disposal and by CEPEO's mandated need to generate sufficient near-term sales as a result of each marketing "investment" to attain financial self-sustainability. (See Section 4.3)

CEPEO is, however, able to contribute to a shift in method mix to the extent that it makes available for sale an affordable, high-quality IUD to public and private sector providers who currently seek such contraceptive supplies. To the extent that the IUD price to providers and the lack of IUD availability have influenced method mix, CEPEO can have a direct impact.

Positive changes since 1993 in the availability of affordable, high-quality oral contraceptives and condoms in the commercial marketplace significantly modify the need for CEPEO to assume this task. (See Section 2.4) In fact, CEPEO's need for financial self-sustainability requires that it maximize the efficiency of its available channels for sales and marketing. CEPEO cannot afford to adopt a product line that requires a different mechanism for the promotion, sale, or distribution of each product. Oral contraceptives and condoms are sold almost exclusively through pharmacies and require considerable direct promotion to consumers who buy both types of products without prescription. IUDs, however, can be promoted and sold directly to providers with much less expensive sales and distribution support. Products that can be sold through the same channels as the IUD might reasonably be considered for addition to the CEPEO product line once IUD sales are well established and if the potential for profit is sufficient. (See Section 2.3.)

CEPEO's original mandate "to increase the correct use of modern contraceptives

through...communication campaigns and other marketing efforts" should be re-evaluated. First, improved correct use is an issue primarily associated in Brazil with oral contraceptives. As noted in the previous paragraph, it does not now seem appropriate or necessary for CEPEO to involve itself in the marketing and sales of oral contraceptives. Second, to maximize its financial self-sustainability, CEPEO must concentrate its resources on marketing activities that lead most directly to increased sales. Increased sales of IUDs, within the parameters of CEPEO's available resources, seem most likely to result from promotion and marketing to providers rather than to consumers.

Principal Conclusions:

- ? CEPEO serves a useful role in the Brazilian family planning environment to the extent that it ensures the availability of high-quality, lower-priced IUDs. It appears that CEPEO is the only commercial entity actively promoting and selling IUDs to private physicians outside the state of Sao Paulo and to public sector entities outside the southern states of Brazil. The relatively low price at which CEPEO sells its IUD product to providers creates competition in the marketplace and appears to have been responsible for some decreases in the unit prices of other IUD brands.
- ? The magnitude of the discrepancy between original expectations for the CEPEO project's contribution to achievement of overall family planning goals in Brazil and the lesser reality of its possible contributions may inhibit appreciation of CEPEO's actual accomplishments.
- ? Either by chance or by plan, CEPEO has found a small business niche (IUD sales) in the Brazilian contraceptive market. It appears at this time that this niche is sufficient to support a small business operation such as CEPEO now is.
- ? For CEPEO to survive within this identified niche, previously set program objectives need to be modified.
- ? The size of the overall contraceptive market in Brazil does not need to be (and probably cannot be) significantly increased.
- ? The number of MWRA who have already selected tubal ligation as their method of contraception significantly limits the degree to which the contraceptive method mix in Brazil can be shifted during the near term (approximately, the next 3 to 5 years).
- ? To the extent that IUD price to providers and lack of IUD availability have influenced the contraceptive method mix, CEPEO can make a direct contribution to a shift in method mix in Brazil.

- ? Oral contraceptives and condoms are now widely available at affordable prices in the Brazilian commercial sector without CEPEO intervention.
- ? The need for increased, correct use of modern contraceptives is an issue primarily associated in Brazil with oral contraceptives, which are not (and are not recommended to be) part of the CEPEO product line.
- ? The need for CEPEO to achieve financial self-sustainability requires that CEPEO resources be invested in family planning and market interventions that will directly increase sales of CEPEO's products. Promotional efforts and communications campaigns aimed at end-users, for example, are not likely to have as much impact on increased IUD use and sales as will such activities aimed at IUD service providers.

2.2 Public Versus Private Sector Sales

Determine "the degree that CEPEO should concentrate on public versus private sector."
 Determine "the degree that CEPEO should subsidize public-sector contraceptives through sale of contraceptives to the private and profit sector."

One of the primary family planning objectives of the CEPEO project is to ensure the availability of lower-priced, high-quality contraceptives to the public and NGO sector. Current CEPEO prices for the Copper T 380a IUD are as follows:

<u>Quantity</u>	<u>Public Sector Unit Price</u>	<u>Private Sector Unit Price</u>
1-9	Cr\$25/unit	Cr\$25/unit
10-24	Cr\$20	Cr\$20
25-49	Cr\$18	Cr\$18
50-100	Cr\$16	Cr\$16
Over 100	Negotiated	Negotiated
Bid price	Cr\$7-10	Cr\$9-13
AVERAGE PRICE	Cr\$8.50	Cr\$16
OVERALL AVG. PRICE		Cr\$12.25

From the prices shown above, it appears that there is no special subsidy of public-sector prices by CEPEO. (The difference between the public- and private-sector average prices indicates that the public sector makes large volume purchases? thereby receiving a volume discount? more often than does the private sector.) The lower range of bid prices quoted for the public sector is

attributable to the larger volume of purchases usually made through public-sector tenders than through private-sector tenders.

CEPEO sales of IUDs for the first nine months of 1996 have occurred as follows:

<u>Sector</u>	<u>Quantity</u>	<u>Percentage Total Sales</u>
Public	37,129	78%
NGO	2,860	6%
Private	7,816	16%

CEPEO purchases IUDs from Finishing Enterprises at a Cost (of the commodity) plus (ocean) freight (CIF) price of US\$1.27 per unit. With the addition of import duties and taxes, the IUD reaches the CEPEO warehouse at a total cost of Cr\$2.45 per unit (Cr\$1=US\$0.98). CEPEO brand-specific packaging and informational inserts raise the "ready to sell" cost to CEPEO of each IUD to Cr\$2.77 per unit.

Calculations, based on actual project expenditures, are not currently available for the total project cost per unit sold in the public sector versus the total project cost per unit sold in the private sector. The average (public and private sales combined) total project cost per unit sold in 1996, however, is calculated to be Cr\$12.40. (See Section 4.3 for a full discussion of sustainability issues.)

From break-even calculations prepared by the assessment team (see Section 4.3), it seems that CEPEO projections of IUD sales in the public versus private sector for 1998 are within the acceptable range for achieving CEPEO basic sustainability. The "optimum" balance between CEPEO's sales to the public sector and its sales to the private sector, however, is determined by CEPEO's need to maintain financial self-sustainability and to achieve profitability. Although it is not yet possible to declare an optimum level of private-sector sales for CEPEO, it is apparent that there is room for growth in CEPEO's sales to private providers. For example, CEPEO's executive director thinks that Organon had sales of about 80,000 MultiLoad IUDs in 1995. Additionally, the 1996 DHS reports that approximately 51 percent of all women using the IUD received the method in the private sector? 27 percent from a private physician and 16 percent from a private hospital or clinic. As shown above, a total of 16 percent of CEPEO sales have come from the private sector in the first nine months of 1996. This percentage leaves considerable room for growth in the private sector share of CEPEO's total sales.

The current imbalance between CEPEO's public and private sector sales (78 percent versus 16 percent) raises another important issue for CEPEO's sustainability prospects. Any company (especially one as small as CEPEO) that relies on one client type for 78 percent of its sales makes itself unnecessarily vulnerable to the vicissitudes of the marketplace. Unexpected downturns in public-sector budget resources for commodity procurement, for example, would leave CEPEO (with its current distribution of sales) with no cushion for continued operation. The

issue of the need to diversify CEPEO's customer base is further discussed in section 2.6.

To maintain the potentially higher level of profitability represented by private-sector sales, CEPEO's management must focus its attention on marketing interventions that are most likely to produce the largest sales or revenue return for the time and resource investments made. High-cost efforts to reach individual private physicians with low purchase potential should be minimized. Segments of the private-sector IUD market that may ultimately repay special marketing attention from CEPEO include hospitals, clinics, health maintenance organizations (HMOs), and physicians already using other IUD brands? especially the MultiLoad, which is a more expensive IUD than the CEPEO-T.

The need to enhance public sector sales has reportedly been one rationale for expansion of CEPEO's contraceptive product line. According to this line of thought, CEPEO needs a variety of contraceptive products to respond to public-sector requests for bids that include more than one contraceptive method. In fact, public-sector requests for bids, according to the CEPEO executive director, most often appear for single methods. When multiple methods or products are included in a single request for bids, potential suppliers are allowed to respond for one item or any combination of the items listed. Therefore, CEPEO gains no competitive advantage in the public sector bidding process by expanding its contraceptive product line. (When asked to bid, CEPEO does occasionally respond with bids for condoms that it purchases from DKT and for diaphragms with jelly that it purchases from Semina.)

Principal Conclusions:

- ? The share of CEPEO's IUD sales represented by the private sector (16 percent) is significantly less than the share of overall IUD sales represented by the private sector (approximately 51 percent, as reported by the 1996 DHS). This discrepancy indicates potential for growth in CEPEO sales to the private sector.
- ? CEPEO's financial self-sustainability appears feasible (according to breakeven projections developed by the assessment team) if one examines the balance between public and private sector sales for 1998 currently projected by CEPEO's management.
- ? Calculations, based on actual project expenditures, of the total project cost per unit sold in the public sector versus the total project cost per unit sold in the private sector are needed for accurate and effective CEPEO management decision making.
- ? CEPEO's current reliance on the public sector for most of its sales makes CEPEO undesirably vulnerable to unexpected changes in the public-sector marketplace.
- ? To realize the potentially higher profitability of sales to private-sector clients, CEPEO's

management must select and fund private-sector marketing interventions that are the most likely to produce the largest sales and revenue return for the time and resource investments made.

- ? CEPEO's ability to respond to public-sector requests for bids that include IUDs does not require CEPEO to broaden its contraceptive product line.

2.3 Non-contraceptive Products

Determine "appropriateness of expanding to non-contraceptive products to generate profit."

There is, to some extent, a conflict between providing a service for the public good and making sufficient money to exist without subsidy for companies established on the basis of both objectives. There is always some degree of danger in introducing either products that are not directly related to providing the designated public good or products that are more profitable than those designated for the public good. The danger is that the interest, attention, and investment given to the easier-to-sell or more profitable product will detract from the interest, attention, and investment required to achieve initial objectives for serving the public good. If a mechanism (such as guidance through a board of directors or corporate charter) exists that ensures the sustainability of the company's public-service objectives, then the danger of misplaced emphasis is considerably lessened.

The practical difficulty for CEPEO, however, lies in identifying possible non-contraceptive products that meet the following requirements:

- ? Sufficient level of unmet need for the product to have significant sales potential
- ? Relatively easy availability for purchase by CEPEO (to avoid costly delays in registration, inspection, import, etc., in Brazil)
- ? Availability at a price to CEPEO that allows profitability within a competitive retail price range
- ? Capability of being sold through sales and distribution channels already being used by CEPEO (to avoid large increases in project costs).

In fact, these criteria should be used for evaluating the suitability of any product? whether non-contraceptive or contraceptive? as an addition to the CEPEO product line.

To date, no product that meets all of these requirements has been identified.

Perhaps equally important, any fledgling commercial entity such as CEPEO should maintain its business focus on developing its primary market until sales are stabilized and well established. Spreading staff members and financial resources over too broad a base[?] i.e., too thinly for success[?] has been the downfall of many new businesses. The primary market for CEPEO is the sale of IUDs. Much remains to be done for CEPEO to maximize its position in the IUD market.

Principal Conclusions:

- ? The primary concern for CEPEO in expanding its product line at this time is the potential for overextending limited staff members and financial resources to the point of marketing ineffectiveness.

- ? The following criteria should be used to determine the appropriateness of any new product, non-contraceptive or contraceptive, for CEPEO's product line:
 - * Sufficient level of unmet need for significant sales potential
 - * Relatively easy availability for purchase by CEPEO
 - * Availability at a sufficiently low price to CEPEO to allow for profitability within a competitive retail price range
 - * Capability of being sold through CEPEO's existing sales and distribution channels.

- ? Currently, the primary market for CEPEO is the sale of IUDs.

2.4 Demand and Supply for Contraceptive Methods

Make "assessment of the demand for and supply [of] various contraceptive methods, and a recommendation on which approaches are appropriate for CEPEO to market to or concentrate on, including but not limited to the following: (a) expansion of the IUD market; (b) introduction of injectables, including Upjohn's DMPA or other products; and (c) introduction of a condom product."

2.4.1 Overview of the Contraceptive Market in Brazil

Approximately 40 million women of reproductive age (WRA) live in Brazil. Of these perhaps 70 percent, or 28 million, are "in union." Even without including the number of WRA who are not in a

union but are sexually active, it is clear that the potential market for contraceptive methods in Brazil is quite large. Of WRA in union, 70.1 percent, or about 19.6 million women, currently use some modern method of contraception.

The 1996 DHS reports that 43.1 percent of women who use contraceptives use the public sector as their source for contraceptive services and products. However, this percentage is heavily skewed by the fact that 70.9 percent of women who chose tubal ligation as their contraceptive method received this service in a public sector outlet. Also, 47.4 percent of women who chose to use an IUD received this service in the public sector.

The private sector provides 54.1 percent of contracepting MWRA with their family planning services and products. As many as 90.5 percent of all oral contraceptives, 94.3 percent of injectables, and 77.1 percent of condoms are provided through the private sector. The private sector was chosen by 51.5 percent of current IUD users as their source.

Within the private sector, according to the 1996 DHS, are several categories of providers or outlets: private hospitals and clinics, pharmacies, private physicians, family planning clinics, and community posts or agents. If one assumes that family planning clinics and community posts or agents represent NGO outlets, then NGO providers of family planning services account for only 0.6 percent (approximately 168,000 MWRA) of the total contraceptive use in Brazil. According to the 1996 DHS, most NGO services appear to be the provision of IUDs.

Potential for Growth of the Overall Contraceptive Market. The nationwide average for modern-method contraceptive use among MWRA in Brazil, as reported by the 1996 DHS, is 70.3 percent. National modern-method contraceptive prevalence was reported in 1986 as 57 percent. This represents an average increase of 1.33 percent per year. In the northeast region of Brazil[?] the area acknowledged to have, generally, the lowest contraceptive prevalence rate of any region within the country (and therefore the largest room for growth in prevalence)[?] modern-method contraceptive prevalence among MWRA was reported in 1991 as 53.7 percent and in 1996 as 62.3 percent. This change represents an average increase of 1.72 points per year.

It may be fairly assumed, however, that at any given time in any country 20-25 percent of WRA will not be contraceptive users. This group of women includes (1) women who are pregnant; (2) women who are attempting to become pregnant; and (3) women who for some reason[?] e.g., religion, politics[?] never intend to use contraceptives. The contraceptive prevalence rates of developed countries appear to bear out this assumption that, at any given time, approximately 25 percent of WRA are not potential users of contraceptives. For example, the modern-method contraceptive prevalence rate given by the Population Reference Bureau in its 1996 World Population Wall Chart are as follows: United States 65 percent, France 67 percent, Germany 72 percent, Japan 57 percent, and Denmark 72 percent. It seems unlikely, therefore, that the national prevalence of modern contraceptive use among MWRA in Brazil will much exceed its current size.

It is not clear to what extent the difference between the number of women of reproductive age in union and the number of all sexually active WRA who are not in union affects potential growth in the contraceptive market. This uncertainty is exacerbated by reported widespread availability and use of abortifacient drugs among young unmarried women. The particular relevance of this issue for CEPEO lies in what is usually regarded as (1) the relative inappropriateness of the IUD for young nulliparous women and (2) the natural advantages of the IUD as a postabortion, postpartum contraceptive.

Overall population growth, however, will certainly increase the total number of potential users of modern contraceptive methods, even when the likely maximum percentage of contraceptive prevalence among MWRA has been reached. The 1996 World Population Wall Chart lists the annual rate of natural population increase for Brazil as 1.7 percent. The country manager for Schering AG supports this idea because he knows the oral contraceptive sales rates in Brazil over the past five or more years. Annual sales of oral contraceptives have been essentially level during that period; they have increased only at the approximate rate of population increase.

Potential for Changes in Method Share of Contraceptive Market. If the overall potential for the modern-method contraceptive market already has been reached, the primary means for expansion of sales and use of any given modern method[?] outside growth of the total population[?] is its replacement of other methods, or method switching. This switching causes shifts in the market's method mix.

In Brazil, tubal ligation is the most widely used modern contraceptive method; 40.1 percent of all MWRA use this method, according to the 1996 DHS. By definition, current users of tubal ligation are not candidates for method switching. This fact eliminates nearly half of the current MWRA as targets for the marketing activities of other modern contraceptive methods.

The second most prevalent method of modern contraception in Brazil is the oral contraceptive (OC). According to the 1996 DHS, 20.7 percent of MWRA are using OCs. Only 9.3 percent of all MWRA report any current use of injectables, IUDs, condoms, or vasectomies by their partners. Only 6.6 percent of MWRA say that they are currently using some traditional method of contraception. Therefore, the primary means for increasing sales and use of most modern contraceptive methods are as follows:

- ? Capturing current OC users (20.7 percent MWRA)
- ? Capturing current traditional method users (6.6 percent MWRA)
- ? Capturing potential new users of tubal ligation before they choose this permanent method (many potential new users of tubal ligation are probably current users of OCs or

traditional contraceptive methods).

Status of the Commercial Market. Since 1993, several important changes have occurred in Brazilian national policies that affect the commercial and contraceptive marketplaces. During the current administration, a law regulating the provision of tubal ligation was written and passed by the Congress. Although the President originally vetoed the bill, he has now requested Congress to override his veto. It is important to note that while Brazilian family planning policy-makers and planners present this law as a positive step forward, the law as written would limit provision of tubal ligation to women age 30 and above with at least three children. This law appears to the assessment team to be, in fact, a step backward.

Brazil also agreed to the Uruguay Round of international trade negotiations in 1993. In theory, Brazil's acceptance of this agreement sets the stage for more import-tolerant regulatory policies. Hyperinflation has virtually disappeared, but pricing and related practices have not fully caught up with this new reality.

Despite these and other changes, implementation of the bureaucratic process by regulatory agencies has remained distressingly unchanged in many important ways. The regulatory environment for the commercial sector is often described as hostile, especially to firms that depend on the importation of products to sell. Constraints on efficient and profitable operations mentioned by a variety of firms? social marketing as well as international commercial pharmaceutical companies? include the following:

- ? Changes in the regulatory process that interrupt functioning administrative systems
- ? Failure of national policy reform to "trickle down" into mid- to lower-level bureaucratic practices
- ? A long history of protectionist practices that favor locally manufactured goods
- ? Slowness with which the product and company registration processes work
- ? Inconsistencies in the application of regulations and inspections
- ? Slowness of the court system in making final rulings on company challenges regarding suspected inconsistent or incorrect applications of the regulatory system
- ? The variety of types of taxes and the amount of each applied to business transactions and sales.

The problems being experienced by Pharmacia Upjohn in its attempt to register the injectable DepoProvera for contraceptive use in Brazil demonstrate many of the existing difficulties in

introducing new pharmaceutical products into the market. (See Section 2.4.3 for a full description.) The experience of DKT in receiving Brazilian accreditation for its Malaysian supplier of condoms is an example of the apparent capriciousness with which the regulatory system operates. According to current law, INMETRO approval of the foreign manufacturer's plant and process takes the place of the otherwise required time-consuming inspection of each shipment of product from that manufacturer. However, although DKT's Malaysian supplier has been inspected and approved, its condom shipments have still been held up for inspection on arrival in Brazil. (See Section 2.4.4.)

Principal Conclusions:

- ? The contraceptive market in Brazil is fairly evenly divided between the public and private sectors, according to the 1996 DHS. The high rate of prevalence of tubal ligation and its primary availability within the public sector probably distort this picture. Condoms are largely and OCs are almost totally products of the private sector.
- ? NGO outlets, according to the 1996 DHS, appear to contribute only 0.6 percent of total modern-method contraceptive prevalence among MWRA.
- ? Potential for growth in the overall contraceptive market in Brazil appears quite limited because of the overall contraceptive prevalence rate among MWRA as reported by the 1996 DHS. However, the growth potential undoubtedly is equal to no less than the rate of annual growth in the total population (1.7 percent). Additional potential for growth in the market related to the current contraceptive practices (or non-practices) of WRA not in union is unclear.
- ? Increased use of particular reversible contraceptive methods appears at this time to depend largely on the potential for method switching. The extent to which MWRA have chosen tubal ligation as their contraceptive method limits the near-term potential for method switching.
- ? Current OC users and current traditional contraceptive users may represent the most likely near-term targets for program interventions aimed at causing shifts in method use.
- ? The regulatory environment governing the commercial and private sector's participation in providing imported contraceptives and family planning services remains largely unfriendly, if not actively hostile.

2.4.2 IUDs

A rough estimation of the *baseline* annual market for IUDs is as follows:

Total population Brazil	
160,000,000	
Number of women	80,000,000
Number of women of reproductive age	40,000,000
Percentage WRA in union	70%
Number of WRA in union	28,000,000
Est. contraceptive prevalence rate MWRA	70.3%*
Number MWRA contracepting	19,684,000
IUD as part of method mix	1.56%*
Number women using IUDs	307,070
Est. interval of IUD use	3 years**
Number of IUDs required per year (1996)	102,357
Annual growth rate	1.7%***
Number of IUDs required (1997)	104,096
Number of IUDs required (1998)	105,866

*1996 DHS data

**Generally accepted average duration of use

***1996 World Population Wall Chart

In addition to this baseline market estimate is the quantity of IUD units that are bought or received by providers and distributors during the year but are not delivered to end-users. Good commodity logistics requires a "cushion" of available product to cover unexpected increases in demand. Also, large provider agencies may purchase or receive in one year a quantity of supplies required for two or more years of service delivery.

However, currently available sales and distribution totals for the public and private sectors during the past year exceed by a surprising amount the baseline demand suggested by the DHS data above. Sales of CEPEO's CuT380a were 55,832 units in 1995 (nine months) and will likely increase to at least 55,000 units in 1996. (Actual sales from January through September 1996 were 47,805 units, and response from Sao Paulo to a CEPEO bid on a purchase of 20,000 IUDs is pending.)

In addition to CEPEO IUDs, the market has Organon's MultiLoad IUD and several other brands, such as the Nova T. The MultiLoad is the only IUD brand, other than CEPEO's CuT, that is thought to have commercial sales of any size. CEPEO's management estimates that as many as 80,000 units of MultiLoad were sold in 1995. According to CEPEO's surveys of physicians attending state

and national reproductive health conferences, most Organon IUD sales appear to occur in the state of Sao Paulo among OB/GYN specialists. CEPEO's management information indicates that Organon has not previously responded to public-sector requests for bids on sales of IUDs.

Sociedade Civil de Bem-Estar Familiar No Brasil (BEMFAM), the Brazilian International Planned Parenthood Federation (IPPF) affiliate, also distributes IUDs. Because BEMFAM receives its supply of IUDs through donation, it is not allowed by law to sell those products. BEMFAM does, however, include contraceptive commodities in "service or technical assistance packages" sold to municipal governments. The municipality pays the equivalent of a negotiated number of minimum salaries per "service package." Usually, the contraceptive commodities are the only part of the package delivered to the municipality, according to BEMFAM managers. BEMFAM also offers IUD insertion services in its own clinics. Clients pay an "insertion fee" of Cr\$30. In 1995, according to its brochure, BEMFAM distributed a total of approximately 9,200 IUDs.

CEPEO's management expected that, with the phase-out of USAID-funded contraceptives for Brazil, BEMFAM would become a principal customer for CEPEO's lower-priced sales. Instead, BEMFAM continues to receive free supplies of IUDs from USAID. According to Wyman Stone, USAID Commodities, a shipment from USAID to BEMFAM of 10,000 IUDs is scheduled for December 1996. A shipment of 11,600 USAID-provided IUDs was received by BEMFAM in July 1996. Additionally, BEMFAM's supplying (USAID-provided) free contraceptives to municipal governments diminishes the potential for commercial sales of the product to the public sector.

If CEPEO or any other organization is to increase sales of IUDs significantly, overall demand for IUDs must increase. The following activities may be required to increase demand for IUDs:

- ? Training of significant numbers of service providers in IUD insertion and contraceptive counseling
- ? Increasing the commitment of state and municipal level governments to provide funding for family planning consumer education and contraceptive commodity purchases
- ? Increasing knowledge among women about long-term contraceptive methods? other than tubal ligation? that are available.

Each of these activities? especially on a geographic scale likely to produce significant changes in levels of demand? can require a fairly heavy investment of program resources. The more geographically constrained the intervention, the smaller the required investment, and the smaller the likely change in overall, national IUD sales and distribution levels.

USAID/Brazil has invested in demand-generating interventions in the northeastern states of Bahia and Ceara. State-specific data are not yet available from the 1996 DHS, so it is not yet

possible to see what changes may have occurred in IUD demand and use in Bahia in the period between the 1991 survey and the 1996 survey. It is true that approximately 35 percent of all of CEPEO's IUD sales during the past 18 months have come from the public sector of Bahia (SESAB). It is also important to know that CEPEO's executive director has excellent professional connections and relationships with SESAB family planning managers. (In Ceara, however, whatever demand for IUDs has been created by USAID interventions has been more than satisfied by significant UNFPA donations of IUDs to the public sector. Ceara, therefore, represents no public-sector sales potential for CEPEO or any other commercial entity until 1998 at the earliest.)

Wide-scale training of providers in the safety and benefits of IUD use seems especially important in increasing demand for IUDs in Brazil for the following reasons:

- ? It is widely reported that Brazilian women[?] especially lower-income, poorly educated women[?] accept whatever treatment or advice their doctors recommend.
- ? Sufficient attention has not been given to family planning clinical and counseling techniques in the curricula of many Brazilian medical schools.
- ? The furor in the United States over the Dalkon shield was widely reported in Brazil and created a negative image for all IUD types, and this negative image remains.
- ? Many physicians are reported to resist IUD usage on the grounds that IUD action is abortifacient in nature, that IUDs are not appropriate for postpartum and postabortion use, or that IUDs are unsafe because of possible transmission of sexually transmitted diseases (STDs).
- ? Many Brazilian OB/GYNs, including those at BEMFAM, have institutionalized a number of medical barriers to IUD use, including requirements for a Pap smear, current menstruation, a "rest period" between periods of IUD use, parity, and minimum age.

Because postabortion and postpartum services delivery appears to be a promising setting for promoting IUD use, it is crucial to ensure that such providers (particularly those at these service sites) have correct information about indications for IUD use. Interestingly, however, at the busiest public-sector maternity hospital in Salvador, IUD service statistics are declining because DepoProvera is available. (DepoProvera is currently provided to this site by Pathfinder through its private funds.)

The most cost-efficient mechanism for providing physicians with correct information about IUDs and with appropriate clinical and counseling techniques is the institutionalization of such education in Brazil's medical schools. USAID has worked in the past, through the efforts of Pathfinder and the Johns Hopkins Program for International Education in Reproductive Health

(JHPIEGO), to reform medical school curricula in the area of family planning and contraceptive instruction. However, the long-term impact of these efforts is not clear. It is thought by some that opportunities for clinical practice in IUD insertion as part of medical school training remain limited or nonexistent.

To increase demand for IUDs within the private and commercial sector, CEPEO has initiated clinical training in IUD insertion for physicians through the facilities of selected Brazilian universities and NGOs. CEPEO resources necessarily limit the number of physicians who can be trained through its efforts (a maximum number of 250); consequently, CEPEO should aim for training physicians who are likely to be influential among their colleagues. Also, the impact of the CEPEO training activity on IUD sales should be monitored carefully to justify continuing this activity.

Principal Conclusions:

- ? Significant differences between annual IUD requirements suggested by 1996 DHS data and by annual sales and distribution data collected from private- and public-sector providers call for some additional research to accurately define the total market for annual IUD sales in Brazil.
- ? USAID's continuing provision of free CuT380a IUDs to BEMFAM[?] which in turn distributes these IUDs to public-sector entities, NGO service delivery agencies, and some physicians[?] diminishes the potential market for CEPEO sales of the identical IUD product.
- ? Significant increases in IUD sales and use in Brazil are likely to depend largely on interventions, such as provider training, that increase demand for the method.
- ? CEPEO's limited staff and financial resources constrain the extent to which its own efforts can significantly increase demand for IUD use. Larger-scale interventions funded by government agencies or donor institutions are likely to be required to drive measurable increases in IUD demand. CEPEO is, however, in a position to supply any increased demand for the method with a high-quality, lower-priced IUD product.
- ? Increased demand for IUDs created by contraceptive method switching is most likely to be generated among current users of OCs and current users of traditional contraceptive methods.
- ? Possible increases in IUD sales and use through expanded postabortion and postpartum adoption of the method suggest a need for heightened training and marketing attention in hospitals, clinics, and HMOs that provide postabortion and maternity services.

- ? There is a need to monitor further the impact of the availability of DepoProvera on the demand for IUD use.
- ? At this time, it appears that IUD promotion to and education of providers will have more immediate impact on increased use and sales of IUDs than IUD promotion to and education of women.

2.4.3 *Injectables*

Upjohn Pharmaceuticals left Brazil a number of years ago because of price controls and other difficulties in doing business in the country. Before its departure, its registered representative in Brazil was Rhodia, a company that distributed and sold Upjohn products. Upjohn, now constituted as Pharmacia Upjohn, returned to the Brazilian market in 1994; it plans to distribute and sell its own products in the future and to gain approval to do this business by registering as a company in Brazil. To obtain this registration, Pharmacia Upjohn must demonstrate that it has local manufacturing capability. Pharmacia Upjohn has chosen a new manufacturing agent in Brazil. This local manufacturing plant must be inspected and approved as part of Pharmacia Upjohn's company registration process. Because this plant previously had been inspected and approved, Upjohn does not expect any special delay in its approval.

Because Rhodia represented Upjohn when DepoProvera was previously registered for non-contraceptive use in Brazil, Rhodia is recognized by the Ministry of Health (MOH) as the current "owner" of DepoProvera in Brazil. The current application for registration of DepoProvera as a contraceptive must, therefore, be made by Rhodia. Because Rhodia no longer will serve as the distribution and sales agent for DepoProvera (and, therefore, has no profit motive for seeing it registered quickly), Rhodia has not placed DepoProvera on its list of priority products for registration by the MOH. Rhodia's allowed list of approximately 10 priority products is made up of brands that it will market and sell. Consequently, there is no apparent movement toward approval of the DepoProvera registration application by the MOH. In fact, the Country Director for Pharmacia Upjohn estimates that unless some special intervention is made, it could easily be another year before DepoProvera receives registration approval for use as a contraceptive in Brazil.

Pharmacia Upjohn's country director states that he is considering a "donation" of 1 million vials of DepoProvera to the federal-level MOH to facilitate the Ministry's registration of DepoProvera as a contraceptive. He further envisions that USAID will purchase these vials from Pharmacia Upjohn/USA so that the "donation" can be made. The 1 million vials would be likely to satisfy national demand for several start-up years.

In other countries where Pharmacia Upjohn is currently introducing DepoProvera as a contraceptive, the company has found that successful product introduction has required

considerable investment in physician seminars and training in client counseling and case management. Initial product sales have been disappointing. Upjohn has encountered unexpected resistance to the method among private-sector specialist physicians because, according to Upjohn medical representatives in the field, these doctors do not want to spend the necessary time to reassure their clients about initial break-through bleeding and subsequent amenorrhea. Physicians also reportedly worry about the consequences of any prolonged delays in return to fertility among their clients. General practitioners working among lower-income or poorly educated women, however, have been much more receptive to the introduction of DepoProvera. For these and other reasons, Pharmacia Upjohn is considering a strategic introduction of DepoProvera in Brazil. Marketing and distribution would begin in a region such as the northeast, where some support for the method may already exist and where infrastructure for provider training and consumer communications campaigns is already in place by virtue of a variety of USAID-funded Cooperating Agencies and projects.

It may be that in Brazil the public sector will represent the best potential for initial sales of DepoProvera, because the public sector has more potential for training and influencing its physicians to provide the method. Pharmacia Upjohn's country director states that the company has an active in-house system for responding to public-sector bids.

The strategic question for CEPEO is as follows: "Is there an appropriate role for CEPEO in the introduction of DepoProvera to the Brazilian market?" This question should be answered in accordance with the four criteria for new products laid out in Section 2.3. In regard to the criterion for price and profitability, it might be financially advantageous to CEPEO, which has special working relationships with particular state or municipal agencies, to try to position itself with Pharmacia Upjohn to represent DepoProvera in selected states in response to future public-sector requests for bids. Because CEPEO is already active in responding to public-sector requests for bids, adding DepoProvera to its list of products available to the public sector would not increase its costs of sales. Such an arrangement must, of course, be perceived by Pharmacia Upjohn as beneficial. If CEPEO is seen to offer specially advantageous sales opportunities because of its currently established relationships with selected government agencies, Pharmacia Upjohn might be interested. The arrangement would likely be financially beneficial to CEPEO, only if Pharmacia Upjohn agrees to give CEPEO an exclusive public-sector territory for DepoProvera sales. In a competition with Pharmacia Upjohn itself, CEPEO could not hope to offer a public-sector entity the lowest price for DepoProvera. There would be no revenue or profit for CEPEO where there are no winning bids.

The criterion for new product addition related to cost efficiency (use of CEPEO's existing channels of sales and distribution) indicates that CEPEO's feasible role in the introduction of DepoProvera would be limited to representation of the product in sales to the public sector, as described above, and representation of the product in sales to private-sector physicians, clinics, hospitals, and HMOs already purchasing CEPEO IUDs. The addition of DepoProvera information to any scheduled IUD training activities or professional seminars could meet the

cost-efficiency criterion. In any event, the criteria for CEPEO's selection of new products, as described in Section 2.3 should be applied to DepoProvera the same as for any other potential product.

If CEPEO participation in the introduction and sale of DepoProvera proves infeasible, USAID will still be able to support the method's introduction through the activities of its other Cooperating Agencies in Brazil, such as Johns Hopkins University's Population Communication Services (PCS) project, Pathfinder, and JHPIEGO.

Pharmacia Upjohn's country director reports that his initial annual sales target for DepoProvera will be about 1 percent of the total contraceptive market (about 1 million vials per year). He hopes that after 5 years of marketing and promotion, mature sales levels would reach 5-7 percent (5 to 7 million vials per year).

The medical director of BEMFAM believes that Schering's one-month, combined injectable Mesigyna may have a better chance than DepoProvera for success in the Brazilian market because of Schering's heavy promotion of its product to FEBRASGO, the Brazilian association of obstetricians and gynecologists. In the Medical Director's opinion, FEBRASGO's support is extremely important in selling an injectable contraceptive product to its OB/GYN members. The registration of Mesigyna does not appear to be complete at this time.

Cyclofam, another one-month combined injectable contraceptive, is also known in the Brazilian marketplace. It is not clear whether the product is being distributed at this time or whether the Population Council is doing preliminary market research on its acceptability. In any event, the Population Council has reportedly done some work among selected feminist groups to develop their support and acceptance of Cyclofam. No independent verification of this information has been made by the assessment team.

Principal Conclusions:

- ? Some special intervention, such as the proposed donation of DepoProvera to the government, may well be required to facilitate the MOH's timely registration of the product for use as a contraceptive.
- ? A donation of 1 million vials of DepoProvera would glut the market and probably postpone the Brazilian government's need to purchase DepoProvera for several years.
- ? The need for provider training in method counseling and case management and for consumer method education makes a strategic (i.e., geographically limited) introduction of DepoProvera look more promising than a national "roll-out."

- ? The public sector may well represent the best potential for initial use and sales of DepoProvera, because it can directly influence and train its own physicians to provide the method.
- ? Certain business conditions (such as a negotiated exclusive public-sector representation of DepoProvera in selected states) could make it feasible and profitable for CEPEO to add DepoProvera to its product line.
- ? USAID supports a number of projects and Cooperating Agencies working in northeast Brazil that could be used to support a strategic introduction of DepoProvera in that region. PCS, Pathfinder, JHPIEGO, and other groups are available to contribute to the training, promotion, and communications efforts required to introduce the method successfully.
- ? No other injectable contraceptive brand appears currently poised to initiate a significant sales and marketing effort in Brazil.

2.4.4 Condoms

Accessible, affordable condoms were scarce when CEPEO was first envisioned, except for the social sector's free distribution system, which accounted for approximately 28 million units donated directly from USAID and another 2.5 million received from Pathfinder in 1993. Private-sector condoms were expensive until the DKT condom, Prudence, found its way into the market at around US\$0.17 each in 1993. Prudence, now the number three brand in the market, forced the other condom providers to compete on price. Several lower-priced brands were brought into the market by the competition, including a nonlubricated condom by Olla that tendered a bid at US\$0.14 each on a quantity of 40,000 for a municipality in the state of Sao Paulo.

Condom prices at the retail level, as reported by the Brazilian newspaper *Correio Brasiliense* on 18 October 1996, are as follows:

Jontex Ultra-resistente	Cr\$2.90/box of 3
Jontex Anatomico	Cr\$2.43/box of 3
Jontex de Bolso	Cr\$1.77/box of 3
Preserv Plus Texturizado	Cr\$2.35/box of 3
Olla	Cr\$1.90/box of 3
Blowtex	Cr\$1.48/box of 3
Lifestyle	Cr\$1.50/box of 3
Prudence	Cr\$.93/box of 3

The UNFPA estimated that the total consumption of condoms in 1995 would be 123.4 million. DKT management, however, has calculated the commercial market consumption of condoms in 1995 at 165 million units. (This number includes the 20 million condoms donated by USAID and Pathfinder.) While this market is growing with the increased awareness of AIDS, competition also is increasing; several Asian manufacturers are considering local production in Brazil. Also, the BEMFAM condom, Prosex, has finally been launched. Brazil's MOH has agreed to procure 200 million condoms as part of its World Bank-financed AIDS prevention effort and 50 million are being shipped as the first installment.

Given the highly regulated market and the hard ball tactics of competing organizations, entering the market with another imported condom would require at least a year of preparation prior to launch and a greater amount of time and resources to establish a significant presence in the market. Additionally, condoms are a consumer product sold to pharmacies and other retail outlets that require specialized distribution systems. Condoms are promoted to consumers through promotional activities, mass media, and point-of-sale materials. Neither the distribution nor the promotional and communications channels required to market condoms successfully are part of the current CEPEO marketing structure. It would not appear to benefit CEPEO in the short term to incur the expenses of establishing such systems to sell a product with so much marketplace competition.

Conditions might change considerably if the Asian manufacturers mentioned above go through with their plans to produce condoms in Brazil and offer them to local purchasers on a contract-manufacturing basis at world prices. In that event, CEPEO management might consider negotiating with those manufacturers to include their locally produced condom in CEPEO's responses to public-sector requests for bids. This locally produced condom product would, in effect, take the place of the DKT condom, which CEPEO has occasionally purchased to respond to a public-sector bid.

Principal Conclusions:

- ? Condoms, like OCs, are widely available in the commercial marketplace at competitive prices without intervention from CEPEO.
- ? The competitiveness of the current condom market in Brazil, the regulatory uncertainties of condom import and inspection, and the specialized channels required for distribution and promotion at the retail level are all factors that significantly diminish the feasibility of CEPEO adding a condom to its product line.
- ? Future availability of a condom product through a contract-manufacturing agreement with a local production firm may well create a reason for CEPEO to re-evaluate condoms as a possible profitable product for sale to the public sector.

2.4.5 Oral Contraceptives

At the time of the initial CEPEO project design by PROFIT, prices of OCs and other pharmaceutical products were controlled by law. Although the resulting low prices made OCs price accessible to virtually everyone, severely limited profit potential constrained manufacturers' interest in market expansion, product promotion, and often new product introductions. The prospect of a donor-funded social marketing effort that would cover the costs of product promotion might have been interesting, under those circumstances, to OC manufacturers with a presence in Brazil. However, soon after the initiation of CEPEO, national policy reform lifted pharmaceutical price controls. Manufacturers were eager to make up for years of limited profit from prices perceived as too low, and they were reportedly unwilling to set a "social marketing" price for any of their OC brands.

Today, however, at least one OC manufacturer includes market segmentation on the basis of price as an important element in its marketing strategy for Brazil. Schering AG has set its prices to distributors and wholesalers so that the retail price of Microgynon in pharmacies is Cr\$2.70 per cycle. (The prices of its other OC brands range up to Cr\$12.00 per cycle.) Such a price is viewed as affordable to virtually everyone within the cash economy. (It is interesting to note that the country representative for DKT in Brazil independently considers Cr\$3 per cycle of oral contraceptives to be an affordable price for potential social marketing consumers in Brazil.) Microgynon is reported by the Schering Marketing Director to have, by far, the highest sales of any OC brand in the Brazilian marketplace.

The 1996 DHS reports that 90.5 percent of all OCs used in Brazil are obtained in the private sector. Pharmacy purchases account for 88 percent of OCs overall or 97 percent of all private-sector OCs. Using DHS prevalence data, one can extrapolate the following annual quantities of OCs sold by pharmacies:

Percentage MWRA using OCs	20.7%
Est. number MWRA	28,000,000
MWRA currently using OCs	5,796,000
Number cycles OCs used annually (x 13)	75,348,000
Percentage OCs obtained at pharmacies	88.2%
Number cycles OCs obtained from pharmacies	66,456,936

Schering officials estimate the total OC market in Brazil to be approximately 80 million cycles annually. It is also their opinion that the OC market has been stable for several years,

increasing only as the size of the population has increased. Schering does not expect to expand its OC market in Brazil beyond its approximately 20 percent share of the total contraceptive market, but seeks to maintain its brands' relative market position.

Principal Conclusions:

- ? Growth in the size of the OC market in Brazil has stabilized at approximately the annual growth rate (1.7 percent) of the population.
- ? OCs are widely available in the commercial marketplace at competitive prices, without intervention from CEPEO.
- ? OCs are purchased by 88 percent of users as consumer products from retail pharmacies (according to the 1996 DHS). CEPEO does not have feasible access to the distribution and promotional channels required to market such a consumer product successfully and profitably.

2.5 Financial Sustainability Versus Product Line Expansion

Determine "the appropriate balance between financial sustainability and expansion of the product line."

Because financial and technical assistance support for CEPEO furnished through PROFIT and SOMARC end in September 1997, financial sustainability goals are critically important for CEPEO. (USAID/Brazil staff members have recently stated the possibility of providing funding to CEPEO through other mechanisms to support discrete activities after September 1997. Such a decision by USAID should probably follow, rather than precede, a restatement of CEPEO's current objectives. The relative importance of sustainability as one of CEPEO's restated objectives would be key to making such a decision.)

Product line expansion requires infusion of a great deal of time and money. An expansion of the product line will not address the issues of sustainability and profitability in the short term because introduction of new products will detract from CEPEO's primary source of revenue? the sale of IUDs? and add costs that inhibit immediate profitability.

Yet it appears unwise for a company to be made unduly vulnerable to sudden changes in its environment by depending on a single product. The assessment team believes, however, that it is most appropriate for CEPEO's sustainability if it establishes its IUD sales more fully before seeking to expand its product line. New product development is more of a consideration for long-term growth once IUD sales growth fails to be greater than that represented by increases

in the population. (See Section 4.3 for a demonstration of a breakeven analysis when all products but the IUD are removed from CEPEO's product mix.) Continuation of sales of other products through bid responses to public-sector agencies does not, however, appear to interfere with marketing focus on establishment of IUD sales and, therefore, should be continued. (CEPEO's other products currently include condoms for the public sector, diaphragms, jelly, diaphragm fitting rings, IUD insertion kits, and a breastfeeding aid.)

CEPEO's potential vulnerability to changes in the marketplace as a one-product company may be diminished by broadening its customer base for that single product. In fact, enhanced financial stability for CEPEO in the immediate future is likely to come from diversification of its customer base. The IUD market, according to data from the 1996 DHS, is concentrated in the private sector. Of the MWRA surveyed for the 1996 DHS, 52.6 percent said they received their IUDs from private-sector providers. CEPEO should put considerable effort into tapping the private-sector market for IUDs. (See Section 2.2 for additional discussion of this topic.)

Initial projections for CEPEO's financial sustainability were based in part, it appears, on expectations of sales to former USAID and Pathfinder commodity clients. In PROFIT's 28 March 28 to April 26, 1993 trip report, it was proposed that CEPEO "could take over Pathfinder's *Centro de Pesquisas de Assistencia Integrada a Mulher e Crianca* (CPAIMC) private-sector recipients (600 or so) over the first year of operations, and develop a commercial sales 'core' that would support sales to additional organizations." This so-called core never materialized. (See Appendix E.) The total potential of annual IUD sales for CEPEO from these clients was approximately 17,000 units in 1992. BEMFAM was one of these perceived potential customers, and it has never needed to procure commodities from CEPEO, because to this day it receives free product from USAID. (See Appendix D.)

Instead of the USAID/Pathfinder client core forming the basis of CEPEO's sustainability prospects, the current executive director's previous professional relationships with the public sector in Bahia have created such a core of sales. In fact, the State of Bahia's public sector represents 26 percent of CEPEO's total sales for 1996 to date. Close behind Bahia/SESAB is the public sector in Belo Horizonte, with more than 21 percent of overall sales. (Relationships such as these may one day facilitate the introduction of new products by CEPEO.) It is always a risk to sustainability, however, to have a high concentration of revenue dependent on one or two customers. In an evolving political landscape, the job security of relevant public-sector personnel and the availability and commitment of funds for contraceptive purchases may be uncertain.

Another facet of vulnerability that single-product companies face is possible changes in supply. Whenever possible, all businesses should spread the risk of supply shortages by having alternative sources of the same, or a suitable substitute, product. This approach is even more important for a small business that relies on a single product for over 90 percent of its revenue. Although FEI insists on exclusive representation by CEPEO in Brazil, some thought

should be given to this issue.

Principal Conclusions:

- ? The originally projected, ready-made core of customers (former USAID and Pathfinder commodity recipients) for CEPEO sales did not materialize as expected. Original estimates of the potential for CEPEO's financial self-sustainability were based on the existence of this ready-made market for sales, and revenues.
- ? Unless changed by a restatement of CEPEO objectives, the need for organizational and financial self-sustainability by September 1997 is the critical component in all current and near-term CEPEO decision making.
- ? Expansion of the product line at this time would not enhance, and might well diminish, CEPEO's profitability prospects within the near term.
- ? Concentration on expansion and solidification of IUD sales appears to be the most reliable and cost-efficient means for CEPEO to achieve financial self-sustainability in the near term.
- ? Reliance on a single product for most of its revenue increases a company's vulnerability to potential downturns in the marketplace. Such vulnerability may be diminished[?] until an appropriate time for product line expansion is reached[?] by diversification of the single product's consumer base.

2.6 Relationships Among USAID-Supported Programs

Assess "the relationship between CEPEO and USAID/Brazil's other partners, including BEMFAM, the PROSEX project, and DKT's social marketing project."

Three entities in Brazil receive some amount of USAID-provided assistance and are charged at least in part with promoting, distributing, and selling contraceptive commodities. These entities are BEMFAM, CEPEO, and DKT. All three have sold or distributed condoms, although to varying degrees. BEMFAM and CEPEO both sell or distribute IUDs. BEMFAM alone distributes oral contraceptives.

The target market for each entity is similar. All three seek to make high-quality products available at affordable prices. All three seek to sell or distribute their products to public-sector providers. DKT has the largest private-sector customer base, because its sole product is condoms, which are sold primarily through pharmacies, kiosks, and other retail outlets.

A rough estimation of the contribution to couple years of protection (CYP) provided over the past 18 months by each of these three USAID-funded entities is as follows:

DKT*	270,000 CYP
BEMFAM**	350,000 CYP
CEPEO***	360,500 CYP

* Based on annual DKT sales of 18 million condoms

** Based on BEMFAM-prepared data in 1995 Contraceptive Procurement Tables; all methods

*** Based on actual sales of IUDs for the last 18 months; 3.5 CYP/IUD

In the initial design of the CEPEO project, it was projected that USAID/Pathfinder's former commodity recipients would form the basis of CEPEO's initial sales and sustainability. BEMFAM was one of the largest of those potential customers. BEMFAM has, however, continued to receive commodities from USAID; and, instead of becoming a CEPEO client, BEMFAM distributes its contraceptive commodities to public-sector entities that otherwise might be potential CEPEO customers. For example, USAID is sending 21,600 IUDs to BEMFAM in 1996, according to purchase order 11395 and cable number 10496. BEMFAM plans to seek future IUD procurement support from IPPF rather than purchase from CEPEO.

Because of low sales volume and absence of a strong position in the commercial marketplace, BEMFAM could possibly be forced out of the condom market. Approaching expiration dates on current inventories that are not being sold quickly enough to avoid expiration may make BEMFAM consistently dependent on donated commodities.

Local protectionist sentiment is strong in Brazil. Recent developments have endangered all low-priced condom brands present in the commercial marketplace. Although the standards organization INMETRO had approved condoms on retail shelves, a newly certified independent testing organization sampled retail stock and condemned low-cost imports, as well as some low-cost local brands, on grounds of poor quality. (See Appendix C.) BEMFAM may benefit from a recent condom-quality testing scandal, because its brand was not sufficiently present in the marketplace to be sampled and identified as inferior quality. However, BEMFAM has already had to destroy nearly two million condoms provided by donors because of their failure in quality testing by INMETRO. More of BEMFAM's Prosex condoms may have to be destroyed, heavily discounted, or freely distributed on the Brazilian market unless BEMFAM condom sales increase dramatically before the 1998 expiration date of its Prosex condom stock.

USAID has directly provided BEMFAM with more than 72 million condoms since 1993, and approximately 12 million additional condoms have been provided to BEMFAM by Pathfinder.

Given the market conditions described above, the relationship between DKT, BEMFAM, and CEPEO is cooperation combined with head-to-head competition. It is believed that at least some part of the cooperation comes from two of the organizations (BEMFAM and CEPEO) sharing a common technical advisor (SOMARC). DKT does not see CEPEO as a competitor, because the two organizations do not sell the same products. In fact, CEPEO has purchased condoms from DKT for resale to the public sector. (CEPEO's bid was rejected in this instance because it was successfully challenged by competitors on

the basis of DKT's use of a preliminary, rather than a final, MOH product registration number for its condom.)

BEMFAM is not yet a serious competitor for DKT, because it has been selling its Prosex condom only since August 1996 and sales have amounted to only about 17,000 units. In the same period, DKT sold approximately 3 million condoms (based on average monthly sales in 1995).

DKT management reports that its condom-marketing program is approximately 80 percent self-sustainable on the basis of expected sales in 1996. Full self-sustainability is expected on the basis of product sales in 1997. (It is unclear how the recent removal of DKT and other condoms from the market by the MOH will affect DKT's self-sustainability projections.) DKT's need for self-sustainability and profitability arises from the desire of its principal private donor to cross-subsidize its programs in a variety of countries wherever possible. Although USAID provides some funding to DKT/Brazil for discrete acquired immunodeficiency syndrome (AIDS)-prevention activities, its funding is not the basis of DKT/Brazil support.

An analysis by the assessment team of CEPEO's breakeven point for self-sustainability (on the basis of projected sales of IUDs for 1998) indicates that CEPEO will be self-sustainable in 1998. Unlike DKT, CEPEO receives all of its outside funding from USAID sources. The primacy of USAID funding sometimes creates expectations that CEPEO can respond to requests for assistance in working toward achievement of new or additional family planning program tasks in the same ways that USAID-funded Cooperating Agencies frequently do. CEPEO's need for self-sustainability, which stems directly from its originally mandated objectives and from the projected September 1997 cessation of USAID support funds, however, requires that it operate as a small commercial company to survive. This fact means that CEPEO's decisions concerning requests for collaboration and cooperation with other family planning entities or in accomplishing new or additional family planning tasks must be made on the basis of whether or not such collaboration would make a positive cost-efficient contribution toward CEPEO's sales and revenues goals.

There is no clear indication from BEMFAM management as to when it will reach self-sustainability. Furthermore, it is unclear to the assessment team to what extent BEMFAM's affiliate IPPF/Western Hemisphere Region (WHR) feels responsible for supporting BEMFAM's continuing operations or assisting BEMFAM in developing and implementing adequate strategies for financial sustainability once the USAID/W-funded IPPF/WHR Transition Project ends in September 1997.

There appears to be a need for more clarity in differentiating the marketing objectives, target markets, and expectations that USAID and other donors have for these three entities. There also appears to be particular confusion between the activities of BEMFAM and CEPEO regarding the sales and distribution of IUDs and between the activities of BEMFAM and DKT regarding the sales and distribution of condoms.

In addition to these social marketing entities, several other USAID-funded Cooperating Agencies are working in Brazil in areas related to CEPEO's objectives. Those agencies include PCS, Pathfinder, and JHPIEGO. Appropriately focused and coordinated, the activities of each of those agencies could support CEPEO's IUD sales objectives, particularly through provider training and method-specific information, education, and communication (IEC)/public relations campaigns targeted to consumers and the general public. Currently, there does not seem to be a mechanism which enables those agencies to

collaborate to the extent that their activities are directly supportive of one another. For example, although PCS has developed a family planning communications strategy for the northeast region, CEPEO management has not had the opportunity to contribute its program needs to the development of that strategy or to review the completed strategy.

Principal Conclusions:

- ? There appears to be some lack of differentiation among the objectives, target markets, and expectations held for the social marketing activities of DKT, BEMFAM, and CEPEO by the donor and family planning communities.
- ? CEPEO, DKT, and BEMFAM do not now seriously impede each other's ability to do business in the Brazilian marketplace.
- ? USAID's continuing donation of IUDs to BEMFAM does diminish to some extent CEPEO's IUD sales potential.
- ? CEPEO's sustainability-related need to operate as a small commercial company limits the extent to which, and the ways in which, it can respond to requests for collaboration or assistance in accomplishing new and additional family planning program tasks.

2.7 Recommendations

"Overall, the consultants will assess whether there is a long-term role for CEPEO in Brazil. If so, they will recommend an appropriate role and strategy for CEPEO...."

- ? USAID/W, USAID/Brazil, PROFIT, SOMARC, and CEPEO representatives should work together to develop a clearly stated, generally agreed-upon set of CEPEO's project objectives appropriate to current conditions in the family planning and business environments of Brazil.
- ? Relevant USAID offices (USAID/Brazil/HPN, USAID/G/PHN/POP/P&E, USAID/G/PHN/POP/FPSD/PROFIT, and USAID/G/PHN/POP/ FPSD/SOMARC) should adopt some mechanism for regular direct communication and joint review of both CEPEO performance and of assistance provided to CEPEO. More direct communication among USAID/Brazil/HPN and the PROFIT and SOMARC CTOs in USAID/W would be useful in identifying areas of concern and opportunities for project improvement in a timely way. A monthly conference telephone call among those three offices might satisfy this need.
- ? USAID/Brazil decisions regarding the need for, or appropriateness of providing, additional funds to CEPEO should be guided by the soon-to-be-modified CEPEO project objectives.
- ? Under the modified objectives mentioned above, CEPEO should be allowed to operate as a small commercial entity. That is, CEPEO's operational and marketing decisions should be governed by

sound small business practice. CEPEO's resource investment decisions should be made on the basis of direct impact on sales and revenue. CEPEO should not necessarily be expected to respond to requests for collaboration and assistance in the same way that USAID's Cooperating Agencies with grants, cooperative agreements, or contracts respond.

- ? CEPEO's marketing strategies should be chosen and implemented on the basis of their potential direct impact on CEPEO sales. Setting priorities for efforts and investments is critically important to CEPEO's sales success and self-sustainability during the next several years.
- ? CEPEO should continue to focus its financial and marketing resources on developing its basic area of business[?] the sale of IUDs. Adding other product types to the CEPEO product line should come after fuller development of CEPEO's public- and private-sector IUD sales. Concentration on expansion and solidification of IUD sales appears to be the most reliable and cost-efficient means by which CEPEO can achieve financial self-sustainability in the near term.
- ? Some limited market research should be undertaken to define more accurately the potential size of Brazil's IUD market. The potential contribution to IUD market size that might be made by WRA who are not in union should be better delineated.
- ? Selection of all new or additional products (whether contraceptive or non-contraceptive) for the CEPEO line should be based on the following criteria:
 - * Sufficient level of unmet need for significant sales potential
 - * Relatively easy availability for purchase by CEPEO
 - * Availability to CEPEO at a sufficiently low price to allow for profitability within a competitive retail price range
 - * Capability of being sold through CEPEO's existing sales and distribution channels
- ? If funds are available, USAID should consider partnership with Pharmacia Upjohn (i.e., part USAID purchase, part Pharmacia Upjohn donation) in making a donation of DepoProvera to the Brazilian government to facilitate the otherwise stalled process of product registration by the MOH. A gift of 200,000 to 250,000 vials of DepoProvera should be sufficient to prime the pump for a strategic introduction of the product without clogging the pipeline so that near-term sales potential is eliminated.
- ? The four criteria set forth above to determine the feasibility of adding a new product to the CEPEO line should be applied to DepoProvera just as they would be to any other product. If CEPEO's management is able to negotiate a business relationship with Pharmacia Upjohn that gives CEPEO exclusive representation of DepoProvera for public-sector sales in selected states, DepoProvera should be considered for addition, under those criteria, to CEPEO's product line.
- ? If CEPEO's management decides that addition of DepoProvera to the CEPEO line is feasible, DepoProvera should not be included in sustainability and breakeven projections for the company until there is substantial actual experience in DepoProvera sales. False optimism based on untested sales projections will wreck the soundness of CEPEO's financial planning

tools.

- ? Some limited research or analysis of existing data should be undertaken to monitor the impact of DepoProvera availability on levels of IUD use.
- ? To lessen its current vulnerability as a single-product company, CEPEO should concentrate its limited resources on obtaining a more diversified client base for the Copper T IUD. Private-sector HMO, hospital, and clinic facilities with significant maternity caseloads, as well as private physicians who are currently inserting large numbers of the more expensive Multiload IUDs, should be specially targeted.
- ? Some limited market research should be done to help identify the most likely clinic, hospital, and HMO customers for the CEPEO IUD.
- ? CEPEO's management should place considerable emphasis on strengthening its base of public-sector sales beyond Bahia and Belo Horizonte. If personnel or policy changes were to occur in Bahia/SESAB, approximately 24 percent of CEPEO's total 1996 sales to date would be vulnerable to loss. CEPEO does not yet have sufficient sales in other product lines to be able to absorb such a loss.
- ? The potential for vulnerability resulting from CEPEO's reliance on one supplier for its principal product should be monitored.
- ? The USAID-planned shipment of IUDs to BEMFAM in December 1996 should be canceled if possible, for two reasons: because BEMFAM is reported to have a considerable inventory stock of IUDs already, and because continuing free provision of IUDs to BEMFAM does not actually enhance BEMFAM's financial sustainability potential but rather diminishes the IUD sales potential of CEPEO's identical product.
- ? USAID should strongly encourage PCS to develop its communications activities? e.g., consumer IEC materials, mass media advertising, or public relations campaigns? in such a way that they directly support the programmatic needs of other USAID-funded projects.

3. ORGANIZATION AND MANAGEMENT

CEPEO is a for-profit commercial company, legally incorporated in Brazil. Ownership of CEPEO rests with the Summa Foundation, a U. S.-based nonprofit company created by PROFIT. Summa USA was established in 1992 to hold title to the investments that PROFIT would make in its sub-projects. In 1993, Summa USA established the Summa Organizacao Pro-Familia S/C Ltda (Summa Brazil). Summa Brazil transfers PROFIT funds as a donation to CEPEO.

The PROFIT project ends in September 1997. As a result, USAID/W and PROFIT must decide how to manage Summa USA and its subsidiaries and how to dispose of their assets by the end of the PROFIT project. As part of this process, the future status of Summa Brazil and CEPEO must be decided.

At the time of this writing (October 1996), CEPEO essentially remains in a start-up phase. Although the organization was created in 1994, its first IUD sales were not made until April 1995, and the executive director and finance officer have been in their current positions less than two months. Changes in key staff, in the board of directors, and in office location have necessitated amendments to the registration of the company and its IUD product. During this transition period, shortcomings in the administrative and financial processes of previous management are being addressed; consequently, company procedures and financial report formats are being redesigned. Financial information necessary for actionable marketing planning is being retrieved and put into consistent formats. A number of important management tools, such as breakeven projections and profit-and-loss statements, are being developed. Existing financial statements based on projections of costs and revenues are being converted to statements based on actual expenditures and revenues.

PROFIT staff members with input into the CEPEO project are themselves relatively new to their current positions. The project director, country manager, and country representative all have been in their jobs for less than a year. (The country manager was formerly the PROFIT Financial Analyst.)

CEPEO operates under the aegis of a three-member board of directors that includes the director of PROFIT, the deputy director of PROFIT, and the director of SOMARC. The authority of the board of directors was instrumental in achieving recently needed changes in the management and administration of CEPEO.

Members of boards of directors in commercial-sector companies generally are responsible for establishing overall corporate direction, creating strategic alliances with potential customers or suppliers, and assisting in finding financial resources for operations and expansion or organization-specific technical expertise. Currently, the most important task facing CEPEO's board of directors is the development and approval of a CEPEO divestment strategy. The current

company structure ends with the demise of the PROFIT project in September 1997. Transition activities undertaken systematically over the next year will certainly benefit the stability of CEPEO.

Operational responsibility for CEPEO rests in its executive director. Progress in CEPEO's administrative and management processes has been made in the two months since Lisa Slavick became Executive Director. She continues to face the difficult tasks of developing her staff, making management and marketing decisions on the basis of real financial data, orchestrating expanded sales in the private sector through the Sao Paulo office, and negotiating realistic objectives for CEPEO.

The executive director now reports directly to PROFIT's country representative (who serves as a surrogate for the board of directors), an arrangement that appears to facilitate communications with USAID, SOMARC, PROFIT, and the board of directors. The country representative for PROFIT and the executive director for CEPEO both reported to the assessment team that they are experiencing no constraints to timely implementation of project activities as a result of the current PROFIT/CEPEO management structure.

Principal Conclusions:

- ? CEPEO, as currently constituted, has a future life of approximately 11 months.
- ? The most important task remaining for the CEPEO board of directors is to initiate and provide overall direction to the development of a CEPEO divestment strategy.
- ? As the organizational and management structure of CEPEO now functions, it does not appear to offer any undue constraints to the timely implementation of project activities.

3.1 Headquarters Location

"Is Salvador, Sao Paulo, or another locale the most appropriate location for CEPEO headquarters?"

Like most start-up small businesses, CEPEO largely depends on the personnel selected to run its day-to-day operations. The present executive director of CEPEO is a dedicated family planning professional whose mix of technical skills and professional contacts would be difficult to replace. The executive director lives in Salvador and is unable to relocate. Also, locating CEPEO's headquarters in Salvador rather than Sao Paulo offers the advantages of lower costs for space, utilities, maintenance, and other day-to-day expenses.

There appears to be no particular benefit to relocating CEPEO's headquarters out of Salvador. Public-sector sales, which currently represent more than 70 percent of total CEPEO sales, can be managed from virtually any location in the country. Response to requests for bids does not require physical location in one particular city. In fact, CEPEO's best public-sector customers are in Bahia. Additionally, because distribution of CEPEO IUDs does not depend on use of a pharmaceutical distribution company (many of whom are located in Sao Paulo) there is no need to be located outside Salvador from that perspective.

Medical congresses and professional meetings, through which CEPEO implements considerable marketing and promotional activities, are held, by design, in a variety of cities around the country. Having CEPEO's headquarters in Salvador represents no disadvantage in this regard.

Just as it would be helpful to have a sales office in the northeast region if the CEPEO headquarters were in the southern region, it would be useful to have a small sales office in Sao Paulo while the CEPEO headquarters office is in Salvador. If CEPEO implements marketing strategies aimed at expanding its private-sector sales, representation in Sao Paulo is important and could contribute significantly to future profitability goals. It appears from the results of CEPEO surveys of physicians attending professional congresses that most of the private sales of Organon's MultiLoad IUD occur in the state of Sao Paulo.

Having a small sales office in Sao Paulo is important, too, from the point of view of taxes. Sales made in Sao Paulo from a Sao Paulo address are not liable for the full range of taxes imposed by that state on sales by companies without a local address.

Principal Conclusions:

- ? Salvador is an appropriate location for CEPEO's headquarters office.
- ? The need to expand CEPEO's private-sector sales appears to justify having a small sales presence in Sao Paulo.

3.2 Staffing

Assess "types and quality of staffing"

Besides the executive director, the staff of the CEPEO office in Salvador includes a finance manager and a sales assistant. The executive director and the finance manager have held their positions since August 1996. Through both current and previous positions with CEPEO and Pathfinder, the executive director has developed local contacts necessary to stimulate sales

and has a working knowledge of the Brazilian family planning and business environments. The finance officer has worked in similar positions at both the Odebrecht Foundation and Pathfinder in Brazil.

The Sao Paulo office consists of an office manager who is being trained for sales and an open position for a full time southern-region sales manager. This position should be filled as soon as possible. The title sales manager may be somewhat misleading in that it suggests the presence of a sales force, which is not the case. The sales manager should have experience in working with private OB/GYN physicians, should be self-motivated, and should be able to operate well without a formal office infrastructure. The efficiency of the staffing pattern proposed for the Sao Paulo office should be carefully monitored for its impact on expanded private-sector sales. If the position of officer manager does not appear to make a sufficient contribution to sales generated by this office, the need for this position should be reconsidered.

For 1997, CEPEO's staff will consist of the following positions:

- ? General manager/executive director
- ? Finance/administration manager
- ? Sales manager
- ? Sao Paulo office manager
- ? Salvador sales assistant
- ? Sao Paulo office help
- ? Salvador office help
- ? Pharmacist (legal requirement).

Principal Conclusions:

- ? CEPEO appears to be adequately staffed for the needs of a small business, with the exception of the unfilled position of sales manager for the southern region.

3.3 Sales Effort

"Should CEPEO have its own sales and detail force or subcontract with existing sales and detailing companies?"

Presently, there are no products available to CEPEO that would justify a sales force or detail unit. Medical-product representatives generally handle dozens of products because of the cost involved in calling on clients. A diverse product line increases the probability of successfully promoting at least one product on each call, thus distributing promotional costs over the entire line. Product line variety also provides the representative with a range of topics to discuss with

the physician from visit to visit.

This does not mean that the CEPEO sales manager for the southern region and the executive director, who will handle sales for the northern region and oversee all sales activities, should not make personal calls on private-sector physicians. Instead, it is actually imperative that they do. To ensure maximum efficiency of this effort, however, visits should be made only to physicians who have been identified as particularly influential or as high, or potentially high, prescribers of IUDs. Procurement managers of large privately held HMOs or hospitals should also be visited personally once they have been identified as likely sales targets.

The cost of establishing, training, and maintaining a proprietary detail force is quite high. However, there may be companies with established detail forces with whom CEPEO could contract to represent CEPEO product(s), if the need for systematic, continuous promotion to physicians around the country arises in the future.

CEPEO's marketing plan now calls for telephone operators who will process incoming sales calls on CEPEO's 800 telephone number. These operators are simply office personnel who answer the phone and carry out various other functions. They are not 800 number-dedicated telephone sales operators. Currently, these CEPEO operators initiate calls only to follow up on inquiries and previous purchases generated from the recent CEPEO direct mailing to physicians. CEPEO's direct-mail sales effort would probably benefit from a more proactive, systematic round of telephone sales calls to all doctors who received the mailing. (The assessment team recommends that the impact of the direct mail effort be re-evaluated. Although it has been only six weeks since the initial mailing was distributed, experience in the United States indicates that most direct-mail responses are received within the first few weeks after the mailing. Generation of sales from 1-3 percent of recipients is considered acceptable in the U.S. market.)

CEPEO's finance officer is being trained by the executive director to develop documents and bids for responding to private- and public-sector requests. The sales manager in the Sao Paulo office will also be trained to respond to requests for bids. The executive director now handles all of this sales activity.

Principal Conclusions:

- ? There are no grounds to justify a CEPEO sales force or detail unit.
- ? The current staffing of CEPEO, with the exception of the unfilled position for sales manager of the southern region, appears adequate for the current sales needs of the organization.

3.4 Recommendations

"Assess the current management structure, including oversight and role of PROFIT staff and CEPEO's board of directors. Recommend an appropriate organizational and management structure for CEPEO."

- ? Well before September 1997, appropriate representatives of USAID/W, USAID/Brazil, and PROFIT should decide the future of Summa Brazil and its resources. Future ownership and oversight of CEPEO should be a part of this decision. PROFIT staff members should prepare for CEPEO a draft divestment strategy for the review and approval of CEPEO's board of directors, USAID/W, and USAID/Brazil.
- ? The PROFIT country representative should have, and appears now to have, the authority to approve for the executive director all operational activities that require approval from PROFIT.
- ? As soon as possible, CEPEO should hire a qualified professional as sales manager for the southern part of the country to concentrate on private-sector sales.
- ? CEPEO's management should monitor over time the direct and indirect impact on sales of the Sao Paulo office manager's position. Without appropriate justification, the position should be eliminated.
- ? Current job descriptions and conditions for receipt of any performance bonuses or incentives should be available in writing in the CEPEO office.
- ? CEPEO's management should regularly evaluate the cost efficiency of its current Sao Paulo office setting. If a more cost-efficient office arrangement can be found, it should be used.

4. CURRENT AND FUTURE ASSISTANCE

4.1 Quality of Current Assistance

"Assess the current assistance provided by PROFIT and SOMARC to CEPEO in terms of quality, efficiency, cost effectiveness, and results."

4.1.1 PROFIT

Since the initial project design period, PROFIT has provided technical assistance to CEPEO primarily in financial projections and financial planning, in management support, and in the legal areas of company and product registration. Assistance has been provided in negotiating CEPEO's agreement with FEI for the CuT380a IUD, and also in initiating contact with the headquarters offices of international manufacturers of other contraceptives (particularly condoms) as part of an effort to create an expanded CEPEO product line.

Technical assistance from PROFIT to CEPEO has been provided almost exclusively by PROFIT staff. The project director, deputy director, director for international operations, country manager, and country representative have all billed a portion of their time to CEPEO for the technical assistance and management support that they provide. A breakdown of the time those individuals have spent in technical and management assistance to CEPEO in FY1996 is as follows:

<u>Staff Position</u>	Overall PROFIT/Brazil	CEPEO Only
Project director	10%	5.3%
Deputy director	5%	2.7%
International Operations Director	5%	2.7%
Country manager	50%	26.5%
Country representative	75%	39.8%

Additionally, PROFIT has hired Brazilian lawyers to provide legal advice on issues concerning Summa Brazil and its legal relationship with CEPEO.

The professional experience of these PROFIT staff members is impressive. The country manager for Brazil has had extensive business experience in the Brazilian banking sector. She provides support to CEPEO in developing financial projections and statements, in acting as liaison with USAID/W, and in responding to its informational and reporting needs.

PROFIT's international operations director has had considerable experience in brand

management and marketing? areas of importance to the success of CEPEO. This area of her expertise, however, does not seem to be applied particularly to CEPEO. She apparently did not participate in developing CEPEO's strategic marketing objectives, developing product strategies, or reviewing SOMARC's marketing assistance to ensure that it directly relates to the financial needs of CEPEO. She did, however, review the CEPEO Business Plan. As CEPEO moves closer to its deadline for self-sustainability, it becomes increasingly important to ensure that company marketing activities relate directly to company financial (sales/revenue) projections and needs.

Until the hiring in early 1996 of the current country representative, who has a substantial background in delivery of family planning services, PROFIT did not provide technical assistance in the CEPEO areas related to family planning. That is, there was no technical assistance in the analysis of business opportunities from the standpoint of strategic need for the service or product within the Brazilian family planning context. The family planning director of PROFIT did not, for example, participate in developing or reviewing the initial project design.

PROFIT's country representative provides assistance in areas related to CEPEO's administration and management and its physician IUD training. She provides liaison among CEPEO, the local Cooperating Agencies (CAs), and USAID/Brazil. She is responsible for reporting to USAID/Brazil and assisting with preparation of CEPEO plans.

A review of the project development and early trip report generated by PROFIT for CEPEO indicates an initial "big-business" perspective and expectation. The difficulties of implementing an import-based business in Brazil as well as changes in the family planning environment have, however, created a small business reality for CEPEO. However, the technical assistance provided to CEPEO may not yet adequately reflect this shift.

For example, as yet, no specialized small business technical assistance, has been provided to CEPEO. The special problems of operating as a small business within a large market need to be approached with specialized skills. Small businesses have much smaller margins for error in planning and implementation. Tight bottom-line accountability and constant monitoring of impact are required. Simplicity of strategies and simplicity of financial and sales monitoring tools are needed.

Principal Conclusions:

- ? The percentages of time allocated to CEPEO by PROFIT/Washington's staff do not appear to be outside the usual and ordinary range for similar USAID-funded projects.
- ? The time spent on CEPEO by the current PROFIT country representative appears to have been especially useful to the improved operation of the project.

- ? CEPEO's shift from big business expectations to small business reality is not yet adequately reflected in the types of technical assistance provided by PROFIT.
- ? There is a need for specialized small business management and technical assistance for CEPEO that does not appear to be available from current PROFIT staff. Use of U.S. or Brazilian consultants may be required in this area.

4.1.2 SOMARC

SOMARC provides technical assistance to CEPEO to support the marketing of its products. This technical assistance includes guidance in developing marketing strategies and implementation plans. SOMARC provides funds for implementing marketing activities and previously provided funds for the salary of the former CEPEO executive director. A SOMARC representative sits on CEPEO's board of directors.

Technical assistance to CEPEO has been provided by SOMARC's Latin America regional staff. When the Latin America regional manager became deputy director of SOMARC, he continued to provide technical assistance and backup support to regional staff working with CEPEO. During the several months since the resignation of the deputy director, there was no Washington office backup to the Latin America regional staff. Now, however, there is an experienced Latin America professional who is in the Washington office of SOMARC and who is responsible for coordination and technical and administrative backup of the Latin America regional office staff.

As part of its assignment, the assessment team was asked to review the draft of the marketing plan now being prepared by CEPEO with SOMARC assistance. Although this draft plan outlined a number of interesting marketing interventions, it was difficult for the team members to assess their appropriateness or likely impact on CEPEO's sales, because the strategic process that led to selection of these interventions was not fully described. The plan in its current draft state does not include such key elements as (a) a discussion of the competitive environment for the CEPEO IUD, (b) a rationale for selecting and setting priorities among various groups that are CEPEO's target markets, and (c) a clearly indicated correlation between selected marketing interventions and expected impact on sales.

In many countries where SOMARC collaborates with commercial-sector entities in contraceptive marketing programs, the commercial entities are larger, established companies with a range of products, only one of which may be involved in USAID-funded program activities. The differences in the marketing realities for CEPEO? a new, small business, one-product company? should be kept in mind in all marketing technical assistance provided by SOMARC. Establishing priorities among marketing strategies according to potential direct impact on product sales and careful monitoring of results should be primary elements in all marketing

assistance for CEPEO.

Although CEPEO staff members have no complaint with the technical quality of the marketing assistance previously provided by SOMARC, they cite the following difficulties in the technical assistance process:

- ? Lack of timely access to SOMARC regional staff with responsibility for providing technical assistance and approval of marketing plans and activities
- ? Delays in process caused by technical assistance staff members who speak only Spanish in a Portuguese- and English-speaking environment
- ? Lack of flexibility in the subcontract structure to allow for timely changes in planned marketing interventions
- ? Delays in reimbursement by SOMARC for CEPEO's marketing expenditures.

(Some delays in reimbursement have been caused by errors made in submitting invoices by CEPEO's previous financial management staff.)

These process issues were addressed with SOMARC during the assessment team's visit, and it appears that solutions are now being pursued. The presence of the newly hired Latin America professional staff in the SOMARC Washington office is expected to facilitate improvements in process.

SOMARC/Washington's management personnel see CEPEO as a PROFIT-managed project to which they are supplying technical assistance in marketing, but for which they have no bottom-line project-performance accountability. To the extent that this statement is true, there is a management gap between marketing interventions and their impact on the revenue requirements of CEPEO.

There may be a further incongruity in the contract structure within which SOMARC provides its technical assistance to CEPEO. The CEPEO executive director is ultimately responsible for the success or failure of CEPEO in meeting its self-sufficiency goals (product sales and revenue generation). However, if there is a difference of opinion between the CEPEO director and SOMARC's technical assistance representative regarding the potential impact on sales of two possible marketing interventions, presently it is the SOMARC representative's decision that controls inclusion of the intervention in the marketing strategy and allocation of funds for its implementation. The CEPEO executive director can be placed in the position of being accountable for success without having the authority to determine which activities will allow her and the organization to best reach its goals. At a minimum, it would be beneficial to establish a mechanism, such as a technical review committee at SOMARC, through which any

such differences of opinion could be considered and resolved. In such an arrangement, the Latin America technical backup person in the SOMARC Washington office might be the only review committee required.

Principal Conclusions:

- ? There appears to be a need for additional strategic thinking in the current draft of the CEPEO marketing plan.
- ? There are problems in several important areas in the process of providing technical assistance to CEPEO that SOMARC needs to resolve. These areas include the following:
 - * Lack of timely access to the technical assistance staff
 - * Delays caused by limitations in language capability
 - * Lack of the contractual flexibility to allow for timely changes in planned marketing interventions
 - * Delays in reimbursement.
- ? There appears to be a need to define more precisely the respective responsibilities and accountabilities of PROFIT and SOMARC in relation to CEPEO. There now seems to be a management gap between implementation of marketing interventions and the project's financial sustainability (to which these interventions are prime contributors).

4.2 Costs and Structure of Current Assistance

"Review the costs and structure of the assistance provided by SOMARC and PROFIT."

4.2.1 PROFIT

Between FY1994 and FY1997, PROFIT will have allocated a total of US\$1.3 million to support CEPEO. This money is divided into two types of funds. Type one represents US\$700,000 from PROFIT's central-investment funds allocated to PROFIT from USAID/W. Type two represents field-support funds that cover PROFIT staff time, the PROFIT country office, allowances, and travel. Of the US\$1.1 million in field-support funds spent by PROFIT in Brazil, US\$600,000 were for CEPEO.

Disbursement of central-investment funds to CEPEO have been or will be as follows:

FY1994	US\$270,871
FY1995	US\$128,881

FY1996	US\$150,421
FY1997	US\$149,830
TOTAL	US\$700,003

Field-support funding (type two) for PROFIT Project activities in Brazil can be summarized as follows:

	FY94-5	FY95-6	FY96-7	TOTAL
Total Budgeted	n/a	US\$500,000	US\$460,000	US\$960,000
Total Actual	US\$286,259	US\$663,059	US\$183,265	US\$1,132,583
CEPEO Actual	US\$73,854	US\$426,483	US\$100,594	US\$600,931
CEPEO Actual as % of total	26%	64%	55%	53%

Notes:

1. Fiscal year is 1 April through 31 March.
2. All figures include allocable overhead.
3. Field-support budget system did not exist in 1994-1995.
4. Actual figures for FY1996-97 are as of 24 August 1996.

Of the US\$1,132,583 in total field-support funding over two and one-half years, as shown above, USAID/Brazil provided US\$960,000.

Total field-support funding in the amount of US\$600,931 has been received by CEPEO to date (24 August 1996). CEPEO's share of total PROFIT field-support funding in Brazil represents an average US\$240,372 per 12-month period.

For the 12-month period of 1 October 1995 through 30 September 1996, approximately 55 percent of PROFIT's total Brazil field-support budget (US\$247,765 of US\$452,967) was accounted for by the (fully loaded) salaries of PROFIT core staff. Of this 55 percent, 53 percent, or 29.2 percent overall, can be attributed to core staff time provided to CEPEO.

A number of serious administrative and management issues have been dealt with by CEPEO during the past 12 months. Each of these issues had considerable legal and financial ramifications. The CEPEO executive director and financial officer were terminated by the board of directors for nonperformance. This nonperformance had to be documented and severance agreements negotiated by the board. CEPEO had to register its by-laws as a company to account for changes in partners, legal representation, and capital. The administrative results of previous nonperformance, such as inadequate bookkeeping, are having to be redressed. Under

these circumstance, the level of PROFIT's core staff support for CEPEO, especially from the country representative, seems to the assessment team to fall within an appropriate range.

Principal Conclusions:

- ? A total of US\$1.3 million will have been spent on CEPEO through PROFIT between FY1994 and FY1997. (During this period, US\$600,000 of the US\$960,000 provided by USAID/Brazil to PROFIT was spent on CEPEO and is included in the US\$1.3 million total.)
- ? It is expensive to establish from scratch a new commercial company and to initiate business operations in a difficult, foreign business environment.
- ? Establishment of a new business is labor intensive.
- ? The need to correct earlier mistakes made in filling local management and administrative positions adds to the project labor costs.

4.2.2 SOMARC

SOMARC has spent a total of US\$493,801 attributable to CEPEO since 1993. Of this amount, US\$242,761 was provided by Central funding and US\$262,040 was provided by Mission funding.

Of the total US\$1,350,000 allocated to Brazil activities under SOMARC III, US\$1,000,000 represents Mission funding and US\$350,000 represents Central funding. All of the Central funds have been spent. Of Mission funds, US\$650,000 remain. SOMARC anticipates that approximately US\$350,000 of the remaining funds will be spent on the CEPEO project through the CEPEO subcontract (approximately US\$250,000) and through SOMARC technical assistance (US\$100,000).

Approximately 11 months remain in the current SOMARC contract with USAID/W. Spending US\$100,000 on technical assistance to CEPEO during that period will require at least two times the level of effort expended on technical assistance to CEPEO during the first nine months of 1996. The levels of funding spent on SOMARC U.S. staff and field staff in supporting CEPEO's marketing activities during FY1993-1996 are low and may reflect the lack of easy access to this technical assistance discussed in Section 4.1.2.

A complete breakdown of SOMARC funding support for activities in Brazil is shown in the following table.

Principal Conclusions:

- ? About 40 percent of SOMARC's 1993-1997 budget for CEPEO remains to be spent during 1997.
- ? Lower than expected levels of spending on SOMARC's U.S. and field staff may reflect the lack of easy access to SOMARC technical assistance experienced by CEPEO.

4.3 CEPEO's Financial Status

"Analyze the cash flow of CEPEO and the degree to which programs and staffing elements are currently self-financing."

As a USAID-funded entity generating revenues from commercial-sector activities, CEPEO has had to function in some respects as a two-headed beast. This dichotomy has contributed to the creation of sometimes perplexing financial-reporting formats, as project management sought to answer both USAID's project performance concerns and CEPEO's need for commercially actionable sales and revenue data. Rarely used and noncommercial terms (such as "net surplus," "accumulated surplus," and "contribution") that are not explicitly defined add to possible confusion. Also, financial reporting formats have changed from time to time. The cash flow report in Appendix 6 is from the Proposed Modified Business Plan of July 1995 and does not appear to be comparable to the monthly cash flow projection for 1996, which is Appendix 7 in the CEPEO Business Plan for 1996. This would probably make it very difficult for CEPEO's local management to monitor progress over time, and to correctly assess CEPEO's status with regard to financial self-sustainability.

The assessment team spent a considerable amount of time reviewing CEPEO's draft marketing plan and budget. PROFIT is now preparing a current cash flow analysis for CEPEO and CEPEO staff have just completed preparing a detailed budget (see Appendix D.) The team worked with CEPEO's management and assisted them in developing a breakeven point for CEPEO operations, which are expressed in number of IUD units sold. The calculation of the CEPEO breakeven point is presented later in this section.

The figures below represent CEPEO's IUD costs and operating expenses compared to revenues during January-September 1996. These figures are based on CEPEO financial data available at the time of the assessment team's visit and are illustrative. More complete profit and loss data are being developed by CEPEO staff. Actual sales from January through September 1996 amount to 47,805 units. Income generated by these sales accounts for approximately 90 percent of CEPEO's revenues. (Funding from SOMARC and PROFIT are not included in this analysis so that the ability or lack of ability of CEPEO to support itself can be seen.)

Total Operational Costs	Cr\$612,834
Total Costs of Goods	<u>Cr\$132,420</u>
Total Cost of Doing Business	Cr\$745,254

Total Revenue	Cr\$464,701
Minus Total Cost of Doing Business	<u>Cr\$745,254</u>
Profit or (Loss)	Cr\$280,553

If CEPEO wins the outstanding bids it has made for the sale of 28,000 IUD units before the end of the year, an additional Cr\$168,560 will be added to earnings. An extension of expenses for the year will total Cr\$817,112. This scenario would result in an overall loss in 1996 for CEPEO of Cr\$183,851, which is slightly less than otherwise projected. Sales of other products by CEPEO will contribute somewhat to reducing this loss figure. The latest profit and loss statement prepared by CEPEO/PROFIT is included with this document (Appendix D).

Financial statements are business tools used to provide a quick review of where business strength lies at a given time. There are typically three separate financial reports. They are (1) the balance sheet, sometimes called the statement of financial position; (2) the income statement, referred to as the profit and loss statement; and (3) the cash flow statement. The balance sheet lists and totals the assets, liabilities, and owner's equity at the end of a particular time period. Owner's equity should equal the amount left over if one converted all assets to cash and paid off all debt (liabilities). The profit and loss statement also covers a particular time period. Cash flow statements are figured using information from the profit and loss statement and the balance sheet. Cash flow statements show whether or not a company can meet its basic cash needs according to real revenue and expenditures and reflects an increase in accounts receivable as a cash outflow. This statement appears to be a tool that is not fully understood by everyone who tries to use it. This kind of document demonstrates that goals have been established and that a disciplined approach is being followed to reach those goals. The cash flow statement does not necessarily indicate if a company is operating at a profit or a loss.

The following is a simplified cash-flow projection formula:

1. Cash on Hand at Beginning of Month
2. Cash Receipts
 - a. Cash Sales
 - b. Collections From Accounts Receivable
 - c. Loans or Other Cash Infusion
3. Total Cash Receipts (a + b + c)
4. Total Cash Available (1 + 3)
5. Cash Paid Out
6. Cash Position (4 - 5)

CEPEO could complete its cash flow analysis either by including donor support under "other cash infusion," or by omitting donor support altogether and thus checking actual CEPEO progress toward self-sustainability.

Procurement of commodities drains CEPEO's cash reserves by approximately Cr\$56,000 every three to four months. CEPEO tries to maintain an inventory of 15,000 IUDs. It has been ordering 20,000-unit lots and is required under the FEI contract to order 50,000 units a year to maintain the price agreement. Therefore, a breakeven chart may serve as the most important financial analysis tool for CEPEO. Not having a fixed margin of profit will make this task somewhat tedious for CEPEO's management, but the result will be useful in ascertaining CEPEO's progress toward financial sustainability. The first step in developing a breakeven chart is to determine the fixed expenses. Fixed expenses are simply those costs that remain the same regardless of the level of sales or production. Next, the marginal profit per unit must be ascertained by subtracting the variable expenses per unit sold from the unit sales price, and then dividing the total fixed expenses by the remainder. This calculation provides the marginal profit per unit. Once the marginal profit per unit has been determined, the number of products that needs to be sold to meet fixed expenses or costs is the breakeven point. This process can provide the profit or loss for any given level of sales.

If CEPEO's fixed expenses are Cr\$400,000 and the marginal profit per unit is Cr\$5.00, 80,000 units will have to be sold to reach a breakeven point. Taking the IUD sales through September 1996 and adding projections for the last quarter, one can calculate CEPEO's marginal profit per unit as shown below:

Units		70,000	Per Unit
Revenue		Cr\$665,000	Cr\$9.50
Expenses		Cr\$868,063	Cr\$12.40
	Fixed	Cr\$519,723	Cr\$7.42
	Variable	Cr\$348,340	Cr\$4.98
Profit		Cr\$(203,063)	(Cr\$2.90)

Subtracting the variable costs from the revenue determines the profit received from each additional unit sold (marginal profit per unit). The total fixed expenses divided by the marginal profit per unit equals the total number of units needed to be sold to break even.

Revenue per unit	Cr\$9.50
Variable cost/unit	Cr\$4.98
Marginal profit/unit	Cr\$4.52

Fixed expenses divided by marginal profit per unit equals 114,983 units required to be sold for CEPEO to break even in 1996.

Because the breakeven point for 1996 is affected by costs in this year that will not be present in future years, budget projections were used to calculate breakeven points for 1997 and 1998.

1998 Projections for Breakeven

	92,000	Per Unit
Units		
Revenue	Cr\$963,240	Cr\$10.47
Expenses	Cr\$960,183	Cr\$10.44
Fixed	Cr\$505,478	Cr\$5.49
Variable	Cr\$454,705	Cr\$4.94
Profit	Cr\$3,057	Cr\$0.03

Revenue - variable cost/unit = Cr\$5.53 (marginal profit/unit)

Fixed expenses divided by marginal profit/unit = 91,407 units to reach breakeven. This number of IUD units to be sold is well within the projected range of CEPEO sales for 1998.

Increased private-sector sales at higher than average prices would raise revenues and create a higher marginal profit per unit. Fewer units would have to be sold to reach breakeven under such circumstances.

It is important to know the effect of removing from the analysis all products except the IUD. As demonstrated below, fewer units are required to be sold to reach a breakeven point under these conditions. Projected figures from the 1997 budget were used in this analysis.

	80,000	Per Unit
Units		
Revenue	Cr\$798,400	Cr\$9.98
Expenses	Cr\$832,097	Cr\$10.40
Fixed	Cr\$419,073	Cr\$5.24
Variable	Cr\$413,024	Cr\$5.16
Profit	(Cr\$33,697)	(Cr\$0.42)

Cr\$4.82 = marginal profit per unit requiring only 86,945 units to be sold for CEPEO to break even. This number of IUD units to be sold is very close to the range of sales projected by CEPEO for 1997.

To help CEPEO management set priorities for project expenses for maximum impact on sales, the assessment team recommended that CEPEO's management identify an acceptable level of benefit (in sales/revenues) to be received for costs incurred. Marketing activities should be ranked according to that scale. Unfortunately, there is no magic formula. The CEPEO management team needs to brainstorm to decide what amount of investment in effort and

resources is justified for a predetermined level of sales. Should time be spent calling on a public-sector client that may never order more than 100 units a year or on a client that is harder to reach and sell but might order 5,000 units a year? Most important is that every marketing activity have a price attached to it. This represents little more than time management and the establishment of priorities.

Principal Conclusions:

- ? In the period of January-September 1996, CEPEO's total actual costs of doing business (Cr\$745,254) compared to total actual revenues (Cr\$464,701) indicates a loss for the nine-month period of Cr\$280,553.
- ? A breakeven analysis of projected sales and expenses for CEPEO in 1998 indicates that the number of IUD units required to be sold to reach the breakeven point (91,407 units) is well within the projected range of CEPEO sales for that year.
- ? It appears that CEPEO has a reasonable-risk chance for financial sustainability after the cessation of funding through SOMARC and PROFIT in September 1997.

4.4 Types and Sources of Financial and Technical Assistance

"In light of the above, recommend the types and sources of technical assistance and financing that USAID/Brazil should provide to CEPEO in the future."

Technical assistance is still needed by CEPEO in the area of marketing and financial management. The present leadership has not had sufficient time to make changes or to understand fully the situation left behind by former management. Present CEPEO management will continue to need some level of technical support for 1997. The type of support needed is primarily in the area of small business management and marketing strategies. This one-year period should sufficiently prepare CEPEO leadership to operate on its own. If management is successful in implementing its newly prepared marketing plan and in reaching its stated sales objectives, CEPEO could indeed reach a level of financial sustainability within that time frame.

If, after an additional year (through 1997) of financial and technical assistance support, CEPEO is not able to sell sufficient quantities of IUDs to maintain itself, it probably should be allowed to fail. However, if USAID determines that there were extenuating circumstances in 1997 which led to a lack of commercial success, USAID might wish to re-evaluate the decision to allow CEPEO to fail. Such a re-evaluation should be rigorous. Repeated failure to reach financial self-sufficiency often indicates conditions in the environment that will not allow for success. Continued funding assistance does not change the environment to make it more amenable to

project success.

PROFIT has provided a number of financial statements to CEPEO that may not have been fully understood by CEPEO's management. PROFIT should provide CEPEO with clearly written, easily understood, simple financial-management instruments. If necessary, PROFIT should provide CEPEO staff members with guidance on how to read financial statements and how to use the various formulas that will give useful planning tools to CEPEO's management. Most important, any financial statements provided should be consistent in format and terminology to facilitate comparison with previous reports and identification of important trends.

Great efforts need to be made in all technical assistance provided to CEPEO to empower its management so that it is better prepared to assume control successfully. CEPEO's management needs to adopt a more proactive stance in identifying and requesting the management training and marketing assistance it needs.

Principal Conclusions:

- ? Technical assistance cannot make up for inherent limitations in the contraceptive market in Brazil. Technical assistance can, however, help CEPEO maximize its potential within existing limitations.
- ? Although donor funding can make up for limitations in the market environment for CEPEO, such funding does not change the environment. If the conditions of the environment in which CEPEO must work will not or cannot support project success (i.e., financial self-sustainability), then continuation of funding will not lead to success.
- ? Financial management and strategic marketing planning are the two areas of CEPEO's operations in which technical and funding assistance continue to be needed most.
- ? Training in analysis of financial documents for management decision making is an area of particular need for technical assistance to CEPEO.
- ? CEPEO's management needs to take an increasingly proactive role in identifying and requesting needed assistance.

4.5 Recommendations

"In light of USAID's phase-out strategy in Brazil, analyze the assistance being provided by PROFIT and SOMARC to CEPEO and make recommendations for the future. This will be facilitated by a review and analysis of the current CEPEO business plan, and proposed revisions to this

business plan as appropriate."

- ? If, after an additional year (through 1997) of financial and technical assistance, CEPEO does not sell sufficient IUDs to achieve financial sustainability, the organization should be allowed to fail.
- ? PROFIT should give CEPEO more small-business specific, entrepreneurial-related technical assistance.
- ? If appropriate small-business technical expertise does not exist on staff, PROFIT should seek such assistance for CEPEO through a consultant or a similar mechanism.
- ? PROFIT should assist CEPEO in developing a set of model financial reports appropriate to a small business. The formats developed should be used consistently, so that changes in financial status can be easily detected and monitored. Easy-to-analyze cash flow and breakeven projections should be developed in preparing for cessation of outside funding. A straightforward profit and loss statement appears to be one of the most necessary financial documents for CEPEO at this time. (Value of inventory already purchased but not yet sold should not be shown as "excess revenue." Terms such as "contribution" should be clearly defined or not used.)
- ? PROFIT should provide CEPEO management with training in analysis of financial reports for management decision making.
- ? SOMARC should work to ensure that its marketing advice is tightly focused and has bottom-line accountability. CEPEO must be assisted and managed in accordance with the commercial entity it must become to continue to exist. CEPEO does not now have any margin for error. If sales projections are not met, or are not met in a timely way, this small young company with limited cash reserves could quickly fail.
- ? SOMARC should put particular emphasis on transferring to CEPEO an understanding of the strategic process of developing effective marketing plans. Rationales for decision making, selection, and prioritization of marketing interventions that are based on projected impact on sales; monitoring; and use of midcourse corrections should all be evident in the assistance provided.
- ? SOMARC should make the necessary personnel investment to ensure that CEPEO's marketing interventions planned for the coming 12-month period are implemented in an especially timely way. CEPEO should not fail to use all remaining SOMARC subcontract funds available for its marketing efforts before the SOMARC project expires in September 1997.

- ? Delays in SOMARC's reimbursement of marketing expenses to CEPEO should be resolved. Although several previous delays were caused by CEPEO's earlier management mistakes in paperwork, continued delays in reimbursements could significantly affect CEPEO's ability to operate. If CEPEO does not have sufficient cash-on-hand to order the commodities needed to meet delivery obligations of contracts won through the public bidding process, for example, the results could be disastrous.
- ? The current structure of all technical assistance to CEPEO should be modified to empower the executive director to call for the particular types of technical assistance she believes are needed, or to reject the technical assistance that she does not believe to be acceptable.
- ? The executive director should be responsible for ensuring that all technical assistance provided to CEPEO is directly relevant to achieving corporate sales and revenue goals.
- ? The respective responsibilities and accountabilities of PROFIT and SOMARC with regard to CEPEO performance should be more clearly defined. There now seems to be a management gap between implementation of marketing interventions and the project's financial sustainability (to which these interventions are prime contributors).

5. SUMMARY OF RECOMMENDATIONS

Recommendations given throughout this assessment document are grouped below according to the agency or agencies most directly responsible for implementing each recommendation.

5.1 USAID/Brazil and USAID/W

- ? USAID/W, USAID/Brazil, PROFIT, SOMARC, and CEPEO representatives should work together to develop a clearly stated, generally agreed-upon set of CEPEO project objectives appropriate to current conditions in the family planning and business environments of Brazil.
- ? USAID/Brazil decisions regarding the need for and appropriateness of providing additional funds to CEPEO should be guided by the soon-to-be modified CEPEO project objectives.
- ? If after an additional year (through 1997) of financial and technical assistance CEPEO does not sell sufficient IUDs to achieve financial sustainability, the organization should be allowed to fail.
- ? Relevant USAID offices should adopt some mechanism for regular direct communication and joint review of assistance provided to CEPEO and of CEPEO performance. More direct communication among USAID/Brazil/HPN and the PROFIT and SOMARC CTOs in USAID/W would be useful in identifying areas of concern and opportunities for project improvement in a timely way. A monthly conference telephone call among the four offices named above might satisfy this need.
- ? The respective responsibilities and accountabilities of PROFIT and SOMARC with regard to CEPEO performance should be more clearly defined. There now seems to be a management gap between implementing marketing interventions and the project's financial sustainability (to which these interventions are prime contributors).
- ? Under the aegis of the modified objectives mentioned above, CEPEO should be allowed to operate as a small commercial entity. That is, CEPEO operational and marketing decisions should be governed by sound small business practice. CEPEO's resource investment decisions should be made on the basis of direct impact on sales and revenue. CEPEO should not necessarily be expected to respond to requests for collaboration and assistance in the same ways that USAID Cooperating Agencies with grants, cooperative agreements, or contracts do.
- ? If funds are available, USAID should consider partnership with Pharmacia Upjohn (part

USAID purchase, part Pharmacia Upjohn donation) in donating DepoProvera to the Brazilian government in an effort to facilitate the otherwise stalled process of product registration by the MOH. A gift of 200,000 to 250,000 vials of DepoProvera seems sufficient to prime the pump for a strategic introduction of the product without clogging the pipeline and eliminating near-term sales potential.

- ? USAID's planned shipment of IUDs to BEMFAM in December 1996 should be canceled if possible, because BEMFAM is reported to have a considerable inventory of IUDs already and because continuing provision of free IUDs to BEMFAM does not actually enhance its financial sustainability potential, but does diminish the IUD sales potential of CEPEO's identical product.
- ? USAID should strongly encourage PCS to develop its communications activities? e.g., consumer IEC materials, mass media advertising, or public relations campaigns? in such a way that they directly support the programmatic needs of other USAID-funded projects.

5.2 CEPEO

- ? CEPEO should maintain the current focus of its financial and marketing resources on developing its basic area of business? the sale of IUDs. Adding other types of products to the CEPEO product line should come after the fuller development of its public- and private-sector IUD sales. Concentration on expansion and solidification of IUD sales appears to be the most reliable and cost-effective means for CEPEO to achieve financial self-sustainability in the near term.
- ? Selection of all new and additional products (whether contraceptive or non-contraceptive) for the CEPEO line should be based on the following criteria:
 - * Sufficient level of unmet need for significant sales potential
 - * Relatively easy availability for purchase by CEPEO
 - * Availability to CEPEO at a sufficiently low price to allow for profitability within a competitive retail price range
 - * Capability of being sold through CEPEO's existing sales and distribution channels
- ? The above four criteria for ascertaining the feasibility of adding a new product to the CEPEO line should be applied to DepoProvera just as to any other product. If CEPEO's management is able to negotiate a business relationship with Pharmacia Upjohn that gives CEPEO exclusive representation of DepoProvera for public-sector sales in selected states, then DepoProvera should be considered for addition, under those criteria, to the CEPEO product line.

- ? If CEPEO's management decides that adding DepoProvera to the CEPEO line is feasible, DepoProvera should not be included in sustainability or breakeven projections for the company until there is substantial *actual* experience in sales levels of DepoProvera. False optimism based on untested sales projections will wreck the soundness of CEPEO financial-planning tools.
- ? To lessen its current vulnerability as a single-product company, CEPEO should concentrate its limited resources on obtaining a more diversified client base for the Copper T IUD. Private-sector HMO, hospital, and clinic facilities with significant maternity caseloads, as well as private physicians who are currently inserting large numbers of the more expensive Multiload IUD, should be specially targeted.
- ? As soon as possible, CEPEO should hire a qualified professional who will be sales manager for the southern part of the country and who will concentrate on private-sector sales.
- ? CEPEO management should place considerable emphasis on broadening its base of public-sector sales beyond Bahia and Belo Horizonte. If personnel or policy changes were to occur in Bahia/SESAB, approximately 24 percent of CEPEO's total 1996 sales (to date) would be vulnerable to loss. CEPEO had not yet developed other sales sufficient to absorb such a loss.
- ? The potential for vulnerability caused by CEPEO's reliance on one supplier for its principal product should be monitored.
- ? The executive director should be responsible for ensuring that all technical assistance provided to CEPEO is directly relevant to achieving corporate sales and revenue goals.
- ? Current job descriptions and conditions for receipt of any performance bonuses or incentives should be available in writing in the CEPEO office.
- ? CEPEO's management should monitor over time the direct and indirect impact on sales of the Sao Paulo office manager's position. Without appropriate justification, the position should be eliminated.
- ? CEPEO management should regularly evaluate the cost efficiency of its current Sao Paulo office setting. If a more cost-efficient office arrangement can be found, it should be used.

5.3 SOMARC

- ? CEPEO's marketing strategies should be chosen and implemented on the basis of their potential direct impact on CEPEO's sales. Setting priorities of effort and investment is critically important to CEPEO's sales success and self-sustainability during the next several years.
- ? SOMARC should make the necessary personnel investment to ensure that CEPEO's marketing interventions planned for the coming 12-month period are implemented in an especially timely way. Before the SOMARC project expires in September 1997, CEPEO should not fail to use all remaining SOMARC subcontract funds available for its marketing efforts.
- ? SOMARC should work to ensure that its marketing advice is tightly focused and has bottom-line accountability. CEPEO must be assisted and managed as if it were the commercial entity it must become to continue to exist. CEPEO does not now have any margin for error. If sales projections are not met, or are not met in a timely way, this small, young company with limited cash reserves could quickly fail.
- ? SOMARC should put particular emphasis on transferring to CEPEO an understanding of the strategic process of developing effective marketing plans. Rationales for decision making; choice, or setting priorities among marketing interventions on the basis of projected impact on sales; monitoring and use of midcourse corrections should all be evident in the assistance provided.
- ? The current structure of all technical assistance to CEPEO should be modified to empower the executive director to call for particular types of technical assistance she believes are needed, or to reject the results of technical assistance that she does not believe to be acceptable.
- ? Delays in SOMARC's reimbursement of marketing expenses to CEPEO should be resolved. Although several previous delays were caused by CEPEO's earlier management mistakes in paperwork, continued delays in reimbursements could significantly affect CEPEO's ability to operate. If CEPEO does not have sufficient cash on hand to order the commodities needed to meet delivery obligations of contracts won through the public bidding process, for example, the results could be disastrous.
- ? Some limited market research should be undertaken to define more accurately the potential size of the IUD market in Brazil. The potential contribution to IUD market size that might be made by WRA not in union should be better understood.
- ? Some limited research or analysis of existing data should be undertaken to monitor the

impact of DepoProvera's availability on levels of IUD use.

- ? Some limited market research should be done to help identify the most likely clinic, hospital, and HMO customers for the CEPEO IUD.

5.4 PROFIT

- ? Well before September 1997, appropriate representatives of USAID/W, USAID/Brazil, and PROFIT should decide the future of Summa Brazil and its resources. Future ownership and oversight of CEPEO should be a part of this decision. PROFIT staff members should prepare for CEPEO a draft divestment strategy for the review and approval of CEPEO's board of directors, USAID/W, and USAID/Brazil.
- ? The PROFIT country representative should have, and appears now to have, the authority to approve for the executive director all operational activities that require approval from PROFIT.
- ? PROFIT should give CEPEO more small-business specific, entrepreneurial-related technical assistance.
- ? If appropriate small-business technical expertise does not exist on staff, PROFIT should seek such assistance for CEPEO through a consultant or a similar mechanism.
- ? The current structure of all technical assistance to CEPEO should be modified to empower the executive director to call for the particular types of technical assistance she believes are needed or to reject the technical assistance that she does not believe to be acceptable.
- ? PROFIT should assist CEPEO in developing a set of model financial reports appropriate to a small business. The formats developed should be used consistently, so that changes in financial status can be easily detected and monitored. Easy-to-analyze cash flow and breakeven projections should be developed while preparing for cessation of outside funding. A straightforward profit and loss statement appears to be one of the most necessary financial documents for CEPEO at this time. (Value of inventory already purchased but not yet sold should not be shown as excess revenue. Terms such as "contribution" should be clearly defined or not used.)
- ? PROFIT should train CEPEO's management to analyze financial reports for management decision making.

APPENDIX A

LIST OF PERSONS CONTACTED

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Ney Francisco Pinto Costa, Coordenador Dep. Medico-Cientifico
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APPENDIX B

List of Documents Reviewed

- "Brazil Demographic and Health Survey: Preliminary Results," BEMFAM, September 1996
- "Brazil Field Support Budget FY 1996," PROFIT, October 1, 1996
- "Brazil Long-Term Strategy," The Pathfinder Fund, October 1, 1988 -March 31, 1990
- "CEPEO in Brazil: Business Plan for 1996," PROFIT, April 29, 1996
- "CEPEO Marketing Plan: Draft," CEPEO, October 14, 1996
- "CEPEO Training Plan 1996," CEPEO
- "Contraceptive Requirements and Logistics Management Needs in Brazil," UNFPA Technical Report, Number 21
- "Country Assessment: Brazil 1992," PROFIT, September 30, 1992
- "Country Health Profile: Brazil, Health Situation and Statistics Report 1994," Center for International Health Information, July 1994
- "Description of PROFIT's Technical Assistance to CEPEO," PROFIT, October 1, 1996
- "Investment Document, Brazil, Commodities Procurement Organization (CPO)," PROFIT, November 2, 1993
- "PROFIT Briefing Papers," PROFIT, October 1996
- "PROFIT Organizational Chart," PROFIT, October 1, 1996
- "Proposed Modified Business Plan for the CEPEO in Brazil," PROFIT, July 6, 1995
- "Role and Responsibilities of PROFIT Core Staff in Brazil Budget," PROFIT, October 1, 1996
- "SOMARC II Marketing Plan Outline," SOMARC
- "Summary of CEPEO/PROFIT/SOMARC Meeting," Deirdre Strachan, July 23, 1996

"Summary of June 4 Meeting on CEPEO," Catherine Connor, June 7, 1996

"Training Options," Deirdre Strachan, February 26, 1996, PROFIT

"Trip Report: Brazil, May 18-June 1, 1992," Donald R. Nicholson, PROFIT

"Trip Report: Brazil, March 28-April 6, 1993," Donald R. Nicholson, PROFIT

"Trip Report: Brazil, June 9-26, 1993," Michael Van Vleck, PROFIT

"Trip Report: Brazil, October 12-22, 1993," Michael Van Vleck, PROFIT

"Trip Report: Brazil, November 15-19, 1993," Michael Van Vleck, PROFIT

"Trip Report: Brazil, January 3-6, 1994," Michael Van Vleck, PROFIT

"Trip Report: Brazil, April 10-16, 1994," Michael Van Vleck, PROFIT

"Trip Report: Brazil, August 22-26, 1994," Donald Nicholson, PROFIT

"Trip Report: Brazil, November 7-12, 1994," Michael Van Vleck, PROFIT

"Trip Report: Brazil," Juan M. Urrutia, SOMARC, January 29-February 3, 1995

"Trip Report: Brazil, January 30-February 3, 1995," Robert Bonardi and Michael Van Vleck, PROFIT

"Trip Report: Brazil, January 8-16, 1996," Lizann Prosser and Catherine Connor, PROFIT

"Trip Report; Rio, Belo Horizonte, Brasilia, January 27-February 1, 1996," Lisa Slavik and Deirdre Strachan, PROFIT

"Trip Report: Brazil, July 29-August 1, 1996," Catherine Connor, Deirdre Strachan, PROFIT

"Updated CEPEO Workplan for August-December 1996," PROFIT, August 7, 1996

"What is BEMFAM?" BEMFAM