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A PRELIMINARY ASSESSMENT OF THE FEASIBILITY OF A SUBSIDIZED CONTRACEPTIVE MARKETING PROGRAM FOR PERU

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EXECUTIVE SUMMARY

A subsidized commercial contraceptive marketing program is technically and economically feasible in Peru, although governmental attitudes and supply problems pose potential barriers. We recommend moving forward with preliminary planning steps, including a meeting at which experienced program managers explain the workings of such programs to interested Peruvians.

a. Program Feasibility

The socioeconomic situation in Peru, combined with evidence about family planning behavior, indicates that a subsidized commercial contraceptive marketing program is feasible. Such a program could serve urban (approximately 500,000) economically active households who practice some ineffective form of family planning and who are now priced out of the commercial contraceptive market. If one-fifth of this group become buyers, the number of Peruvian families practicing modern contraception will be approximately doubled.

The program might take the following form:

- several products (pills, condoms and spermicides) with locally developed brand names;
- a price of S75 (about 32¢) for a one-month supply of each products;
- initial distribution through pharmacies, utilizing distributors and wholesalers to deliver products, with plans for later expansion of distribution of condoms and spermicides to other outlets;
- product specific media advertising, supported by point-of-purchase materials, missionary selling and detailing to physicians.

After it reaches full volume in the second year, the program may be self-sufficient except for contraceptive supplies, although some small ongoing cash subsidies may be needed. A minimum of $500,000* in cash will be needed to pay for some of the program development costs and the initial launch, as well as program administration during the first two years of the program.

b. Barriers to Program Development

Several problems must be solved in order to make such a program workable:

- There are severe restrictions on importation of finished goods, so some special arrangement must be made to secure a reliable flow of supplies.

* It should be noted that this amount is exclusive of community costs; overheads, home office support as well as inflation factors.

- The government has taken negative measures recently on distribution of contraceptive products, so timing of program launch must coincide with relaxation of at least some of these measures. Some test-marketing activities may also be desirable.

- Efforts are required to develop an organization willing to serve as a local sponsor.

As a result of these considerations, it may be necessary to anticipate a period of negotiation before any such program gets under way. However, such a delay should not cause major changes in program format or the time frame of two to three years.

c. A Suggested Initial Step

As a first step toward development of a program for Peru, we recommend an early meeting between interested Peruvians and a group of managers and other experts who have had experience with such programs elsewhere.

CONTENTS

		Page
	EXECUTIVE SUMMARY	i
I.	THE CLIMATE FOR A SUBSIDIZED COMMERCIAL MARKETING PROGRAM IN PERU	1
	A. The Socioeconomic Environment	1
	B. The Political and Legal Environment	1
	C. The Family Planning Environment	4
	D. Movement of Contraceptives Through the Commercial and Public Sectors	5
	E. The Marketing Environment	8
II.	ECONOMIC FEASIBILITY OF A SUBSIDIZED MARKETING PROGRAM IN PERU	13
	A. Potential Market	13
	B. A Tentative Marketing Program	16
	C. Project Organization	18
	D. Supply	18
	E. Revenues and Costs	19
III		
III.	PRE-PROJECT ACTIVITIES	21
IV.	PROJECT DEVELOPMENT	22
	A. Background Information	22
	B. Analysis of Marketing System	23
	C. Preparation of a Marketing Plan	23
	D. Procedural Elements of the Program	24
	E. Measurement of Project Output for Nationwide Project	25
	F. Project Organization	25
	G. Post Contract Award Activities	26

APPENDIX A: SOURCES OF INFORMATION

I. THE CLIMATE FOR A SUBSIDIZED COMMERCIAL MARKETING PROGRAM IN PERU

Socioeconomic factors and a well-developed marketing structure indicate that Peru offers an attractive environment for a subsidized commercial distribution program. However, organizational and political problems indicate that such a venture must be approached cautiously.

A. The Socioeconomic Environment

Socioeconomic indicators for Peru appear favorable for a commercial distribution project. Table 1 shows these indicators to be in the same range as those of other countries in which commercial programs have been undertaken. The adult Spanish literacy level (72%) is high and the number of radio and television receivers and print media per 1,000 population are adequate to make even a relatively sophisticated communications program possible. In addition, the combination of high birth rate and low death rate, accompanied by relatively well-developed marketing infrastructure indicate that Peru provides an attractive environment for commercial distribution to aid in significantly increasing the availability of contraceptives. With about two-thirds of the population classified as urban, the distribution system will be able to provide products and the modern communication system will reach the vast majority of potential users.

However, the income distribution, which imposes extreme restrictions on spending power for a significant portion of the population, (particularly those classified as underemployed) places restrictions on the size and composition of the market that could be expected to be served by such a program. In addition, a relatively small fraction of the population (28% is economically active and this imposes additional restrictions.

B. The Political and Legal Environment

Official government population policy and legal treatment of commercial distribution of contraceptives are consistent with the fact that Peru has only recently begun to take action in the area of population. In 1976, in a document entitled "Lineamentos de Politica de Poblacion en Peru," the National Planning Institute (INP) set the following goals for population policy within its National Development Plan:

(1) to achieve a growth rate which is consistent with the public's right to decide freely on family issues and which contributes to Peruvian efforts to reach the human development level to which it aspires;

(2) to achieve a significant reduction in morbidity-mortality levels (especially of maternal and child);

(3) to achieve a population distribution consistent with regional development objectives and national security.

TABLE 1

Economic and Social Indicators for Peru and for Other Countries with Subsidized Commercial Distribution Systems

	Morocco	Sri Lanka	Jamaica	Ghana	Nepal	Peru	Guatemala	El Salvador
Population (millions)	18.0	14.2	2.10	10.9	15.4	17.0	6.2 ('78)	3.6 ('75)
Percent economically active	26.3%	35.4%	42.6%	38.9%	42.0%	28.0 ('77)	30.6%('75)	30.9%('75)
Percent agriculture forestry	50.0%	40.6%	29.5%	NA	94.4%	39.5('77)	58.2%	41.2% "
Percent of labor force in manufacturing	9.3%	7.6%	10.8%	NA	1.1%	12.8('77)	13.5%	10.0% "
Wages in manufacturing (hourly, 1975)	2.21 dirham	12.834/day	NA	77.5/mo.	NA	US108/mo. ('77)	$59/wk ('76) or 49.4 centaros/hr.	55-69 colon /wk ('77 or 1.30-1.50/ colones
Price Index 1977 (1970-100)	131.4	147.5	237.5	724.3	151.0	263('76)	124.4(77)	204.3(78) 180.8(77)
Motor Vehicles in use (1975)	320,000	91,700	86,100(72)	85,000(74)	4,000(68)	495,000 (74*)	133,000(76)	60,000(74)
Telephones per 100	1.0	0.5	5.0	0.6	2.1(73)	2.4(76)	1.0(73)	1.4(76)
Population per hospital bed	723(76)	333(73)	257(74)	649&33)	6630(74)	497(72)	457(73)	563(75)
Population per physician	13.8(74)	4.0(72)	3.5(74)	11.2(74)	36.5(74)	1,802(72)	4.4(73)	3.6(75)
Radio receivers per 1000	7/(74)	37 (74)	320(73)	110(74)	6(75)	131(77)	NA*	NA

	Morocco	Sri Lanka	Jamaica	Ghana	Nepal	Peru	Guatemala	ElSalvador
TV sets per 1000	23	--	49	3	--	37(77)	NA*	NA
Newspaper circulation	14(74)	NA	90(74)	41(73)	6(73)	690,000	NA*	NA
Birth rate	45	26	30	49	44	41.0(70-75)	42.8	39.9
Death rate	14	9	7	20	20	11.9 "	11.8	7.9
Rate of Natural Increase	3.1%	1.7%	2.3%	2.9%	2.3%	2. %	3.1%	3.2%
Urban Population	38%	22%	41%	31%	4%	66%(79)	36.4%	42%
Adult Literacy	24%	85%	86%	NA	14%	72%(76)	47%	NA
GNP/Capita (US$)	540	200	1070	580	120	800(76)	630	NA

*Passenger & Business

Sources: World Bank, World Tables, 1976, Johns Hopkins University Press; World Population Reference Sheet, 1978; United Nations Yearbook of Labor Statistics, I.L.O., 1977; and United Nations Statistical Yearbook, 1977. Demographic Yearbook, U.N. 1977. International Marketing Data and Statistics, 4th ed. Euromonitor Publication 1978-79. London.

Estimates provided by market research and advertising companies in Guatemala are located in Section II of this report.

As in other countries at this stage, oral pills and injections remain grouped, for legal purposes, with general ethical pharmaceutical products, and condoms with rubber goods. Further, in an apparent effort to encourage local manufacture in the pharmaceutical and other industries, the import of contraceptive products in finished form is prohibited. Special import permits are granted only on proof of special need and inability to produce the product locally. Foreign currency restrictions further limit the ability to import finished goods, or even raw materials. Prices and margins for all pharmaceuticals are controlled. As elsewhere, this is more easily enforced for oral pills than for condoms because of the nature of their respective distribution systems. New ethical products placed on the market must meet standard requirements set out in regulations pursuant to the Supreme Decree of October 27, 1960 which deals generally with the pharmaceutical industry. While advertising of contraceptive products does not appear to be strictly prohibited, it is subject to prior restraint, i.e., advance approval must be obtained. To our knowledge, this has as yet not been attempted.

Government policy initiatives have in the past ranged from tacit approval of voluntary family planning activity to vigorous suppression of such activity. The situation at present remains uncertain, especially in advance of the elections scheduled for May 1980. While no official programs are likely to be undertaken before the elections,this may present less of a problem for private sector activities. Consequently, programs not identified, except indirectly, with national or international organizations seem to have a distinct advantage. This has been the case elsewhere, both in terms of policy and management of commercial distribution programs. In the Peruvian situation, the more free standing the organizational form and the less formal governmental participation or formal approval required, the more likely the program is to function effectively.

C. The Family Planning Environment

A detailed report of ongoing family planning activities is available in "An Assessment of Population and Family Planning in Peru," (December 1978) by Bruce Carlson, and this section will concentrate on implications of the current environment for a commercial marketing program.

While the Carlson report identifies 12 organizations delivering family planning services, the fact that the Peruvian Association for Family Protection (APPF), founded in 1969, was forced to cease operations in 1974 and was dissolved in 1975 indicates that there are special government pressures on organizations engaged in delivery of family planning information and services. Further, during our stay in Peru, the government placed severe restrictions on contraceptive distribution to new users in the public sector. The nature, extent and duration of these restrictions remain unclear as of the writing of this report.

As a result, it will be particularly important in the Peruvian environment to secure a strong sponsoring organization which understands a commercial

distribution program and is willing to support it. One candidate would be the National Association of Pharmaceutical Laboratories (ALAFARPE) which has engaged in family planning activities as part of its social commitment. It is also possible that one of several volunteer organizations (such as Instituto Marcelino) might serve as sponsor, although a commercial project is less likely to fit comfortably there.

D. Movement of Contraceptives Through the Commercial and Public Sectors

There is significant movement of oral pills, condoms and injectable contraceptives through the commercial sector.

1. Oral and Injectable Contraceptives

Table 2 shows that there has been a decline in both US dollar value and volume of oral contraceptives and injectables over the past two years. According to pharmaceutical industry sources, this is traceable to the general worsening of the economic climate in Peru.

Schering leads the seven contraceptive manufacturers in both volume and dollar value of sales. Schering and Organon together control nearly two-thirds of the market. The remaining third is divided among Upjohn, Wyeth, Park-Davis, Searle and Roussel.

Table 2

Total Market for Oral Contraceptives and Injections, Peru, 1976-79

	Units	US Dollar Value
Feb. 1976 - Jan. 1977	1,268,000	$1,706,000
Feb. 1977 - Jan. 1978	1,308,000	1,466,000
Feb. 1978 - Jan. 1979	1,117,800	1,319,000

Source: IMS

Ten brands of oral pills (in various dosages) and two brands of injectables are available in the Peruvian commercial market. Of these, Lindiol (Organon) is the largest selling by volume. Consumer prices range from S100 to S300 (US $0.43-1.27) per cycle for oral pills, with most on the higher end of this range; and between S500-700 for injectables (US $2.13-2.98). While these prices are low to moderate by international commercial standards, they are beyond the purchasing power of the majority of Peruvian consumers.

Table 3 and Figure 1 show a heavy concentration of current sales of pills in regions containing heavy urban concentrations, with over two-fifths sold in the Lima area.

Table 3

Sales of Oral Contraceptives by Region, Peru, 1977 - 78*

Region	Percent of Total Sales 1977	1978
1. Norte Grande	17.34%	16.94%
2. Norte Chico	10.78%	11.28%
3. Gran Lima	48.05%	42.04%
4. San Chico	3.99%	5.00%
5. San Grande	11.94%	14.32%
6. Sierre Central	4.04%	5.93%
7. Selva	3.92%	4.59%

Source: IMS

* See Figure 1.

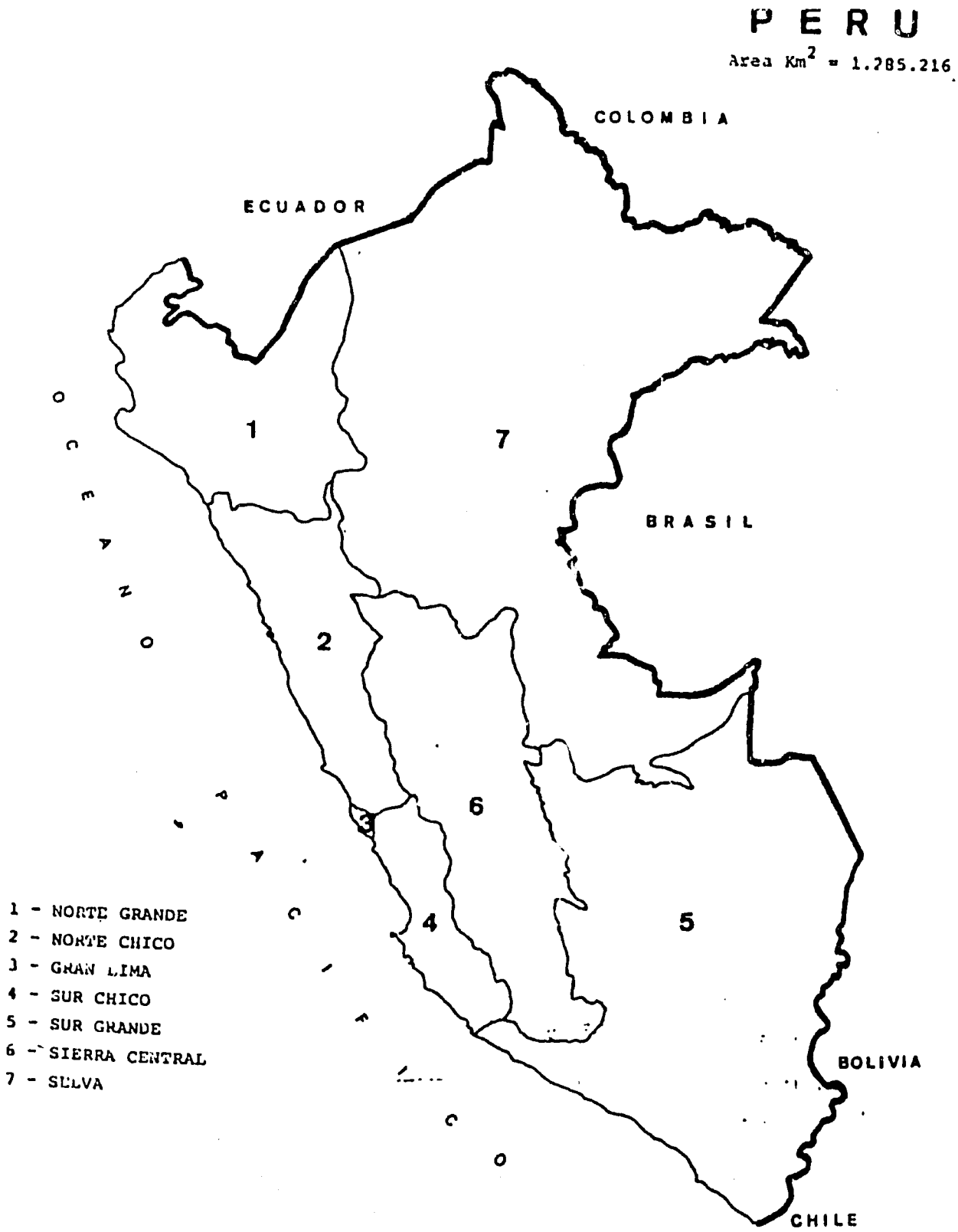


Figure 1. Regional Map of Peru

2. Condoms

Locally produced condoms (Dragon, Tauro and Playboy brands) sell about 25,000 gross per year at about 10¢ US per unit. All of these are locally manufactured by Latex, S.A. There is also some (fairly insignificant) smuggling of foreign brands, but much less than local production.

3. Total Protection

In terms of total protection provided by the commercial market, it appears that about 100,000 couples are protected by oral contraceptives, 20,000 by injections and 30,000 to 50,000 by condoms. This has occurred in absence of public sector informational activity or of any significant consumer promotion by commercial producers.

It is estimated that the public sector distributes only a fraction (10-20% of the volume of contraceptives distributed in the commercial sector.

E. The Marketing Environment

Adequate support for a project exists in terms of advertising, distribution, market research and packaging services.

1. Advertising

a. Advertising agencies

A total of 57 organizations offer advertising agency services. The two largest are affiliated with McCann Ericsson and J. Walter Thompson. There are also significant locally-owned agencies, including a branch of Publicitas and a local trade association of 16 major agencies exists.

b. Advertising media

Commercial television and radio, newspapers and magazines, cinemas and outdoor advertising are available. Total identifiable media expenditure in Peru in 1978 was $25 million, an increase of more than 30 percent from the previous year, chiefly in television expenditures. Of this, about four-fifths was spent in the Lima area. In terms of media, the division of expenditure is as follows:

Television	76%
Radio	6%
Newspapers and magazines	4%
Others	14%

Among the larger advertisers are Coca Cola, Inka Cola, Johnson and Johnson, Unilever and Gillette. Large annual advertising budgets for single products are in the range of US $100-300,000. Recently, a 27 million sales (150,000) budget for a major hair product was allocated as follows:

Television	67%
Magazines and other press	3%
Special Promotions	7.5%
Production costs	22.5%

i. Television

Of a total of approximately 1.6 million urban households, one million (more than three-fifths) have television receivers. Within Lima and Callao, even the lowest income groups report 70 percent ownership.

A total of 28 stations broadcast to all important urban areas over four major networks. One network (Channel 5 in Lima) has slightly in excess of half the rated audience and reaches 5 million people. The average household has 3.2 viewers, of whom 1.2 are women above 12 years of age. Among the three major stations, an audience of 1.5 million women aged 18 to 39 are reached in the greater Lima area.

ii. Radio

There are 200 commercial radio stations, 38 of which are in the Lima area. In Lima and Callao, 97 percent of households have radios, and in the rest of the country 86 percent have receivers. In urban areas, radio penetrates 96 percent of lower income groups. The typical household has 2.6 radio listeners, including 1.2 women.

iii. Newspapers and magazines

There are 32 newspapers with a combined circulation of 690,000 daily. In addition, there are 94 general and special interest magazines, including both national and international editions. Approximately two-thirds of the 2.5 million readers of daily papers are in Lima and Callao.

There are 224,000 copies of monthly magazines sold, with three-quarters circulating in Lima, with a total readership of persons over 15 years of age of 2.5 million.

iv. Cinema

A total of 390 cinemas offer advertising, of which 133 are in the Lima area. Of an estimated total weekly audience of 1.6 million, slightly more than one million are outside Lima.

2. Distribution

An adequate distribution system extends throughout the country to reach households with significant cash income.

	Greater Lima	Other Major Cities	Other	Total
Food stores	13,900	6900	8,000	28,000
Supermarkets	79	40	na	na
Pharmacies	1,184	467	452	2,103
Kiosks	1,600	125	na	na

These outlets are served by a network of 3,000 to 4,000 wholesalers centered in Lima and spread throughout the country serving the retail network.

a. Pharmaceuticals

A total of 25 producers of pharmaceuticals distribute their products to 2,150 pharmacies located in centers of population throughout the country. Most manufacturers use two or three large distributors to reach these pharmacies and also maintain a relatively large force of detail persons. Some manufacturers have as many as 40 detail persons in addition to the sales forces maintained by their distributors.

Margins at the retail level range from 20-25% of retailer's cost and at the wholesale level from 15-21% of wholesaler's cost.

Figure 2 shows estimated volumes (by percent of value) of ethical pharmaceuticals flowing through various channels of distribution in 1973. Since that time, there has been a significant growth (perhaps of 33%) in movement through government channels.

b. Consumer products

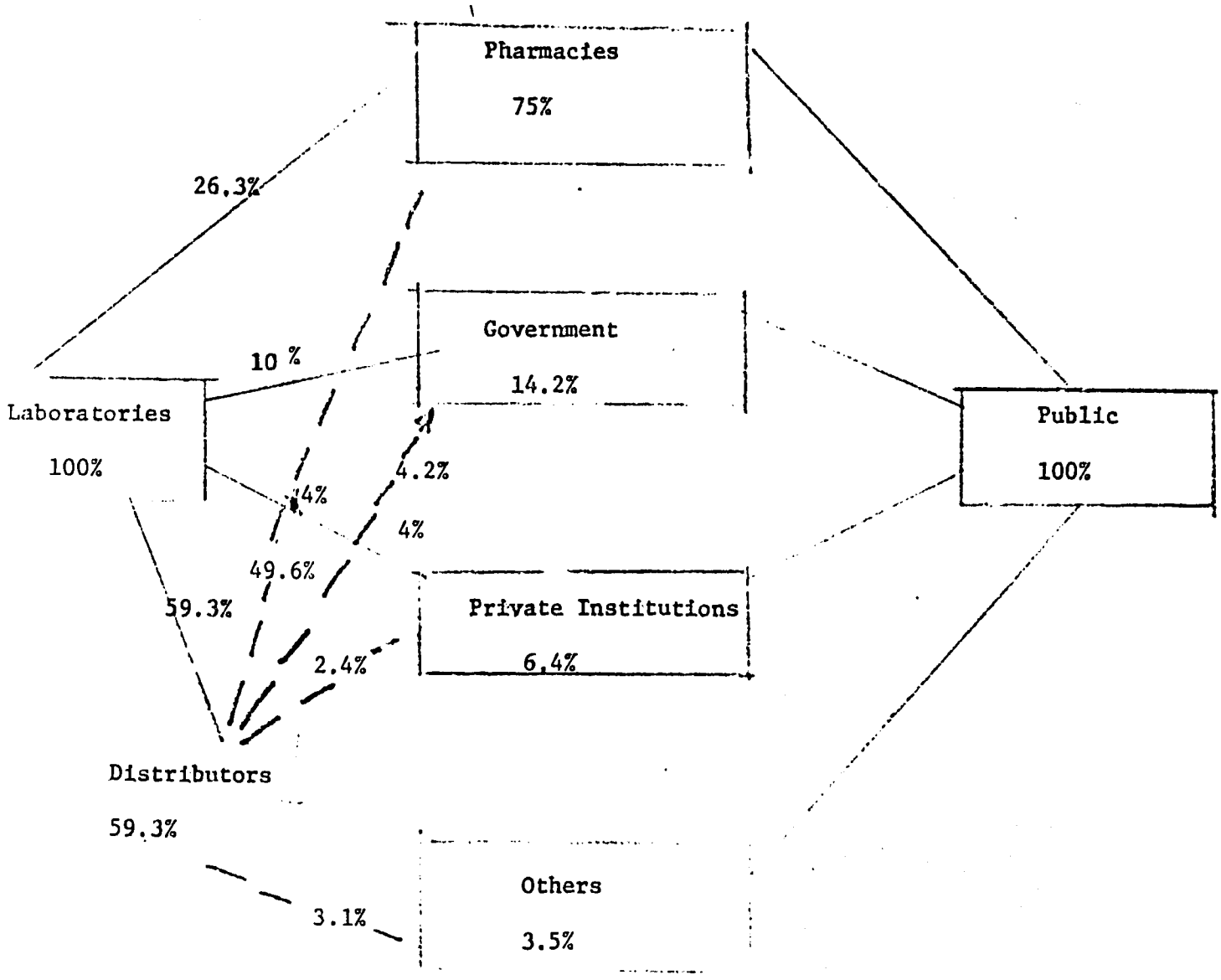
Marketing of consumer products in Peru tends to be distribution intensive. Sales persons are relatively inexpensive (salaried at between US $50-400 per month) and transportation costs are low. Travel allowances are as low as US $1.50 per day at some firms and shipping costs are equally low (US $.75 to ship 20 kilos from Lima to Cuzco by bus). Consequently, one large distribution firm has as many as 80 salespersons for its lines of proprietary products. Distributors therefore are generally able to reach a large proportion of the 12-15,000 significant retail outlets in the country.

Manufacturers of widely distributed consumer goods tend to avoid wholesalers or at least to distribute directly to major retailers in order to avoid reducing their already low margins. One manufacturer-distributor of a widely

Figure 2

Volumes of Ethical Pharmaceuticals by Channels

(1973)



Source: IMS

purchased consumer product indicated the difference between its costs and consumer price per unit was only 20 percent.

Firms which market products nationally, generally maintain depots in at least four or five strategic towns. One distributor maintains five regional offices, uses 22 vans to distribute its products within Lima and the five regional offices and supplements this with delivery by public transportation to other areas. Even deeper penetration is obtained by a cigarette distributor by maintaining a warehouse, personnel and vehicles in the capital of each departmento.

3. Promotion

There is evidence of wide use of point of purchase materials in pharmacies as well as other retail outlets. Wall posters, dispensers, display cases are used by various products, including: aspirin, chewing gum, soft drinks, and razor blades. In addition, various special promotions are common, including such activities as distributing samples and flyers in the street.

4. Market Research

Facilities are available for conducting all forms of marketing research, ranging from qualitative motivation research to consumer surveys. In addition to services provided by the full-service advertising agencies, 11 market research organizations and nine motivation research organizations are located in Lima.

5. Packaging and Point-of-Purchase Materials

At least four local organizations produce modern packaging materials, including one which offers both blister and skin plastic packaging. Ten local firms provide lithographic services which could be adapted to production of display materials and dispensers. One provides services of printing on metal appropriate for metal point-of-purchase signs.

II. ECONOMIC FEASIBILITY OF A SUBSIDIZED MARKETING PROGRAM IN PERU

A. Potential Market

The primary potential market will be defined in terms of households with all of the following characteristics:

- Urban residents with easy access to the pharmaceutical distribution system;
- Economically active groups with adequate cash income to purchase contraceptives at subsidized prices;
- Current practices of contraception who are not now using a modern or dependable form of birth control.

1. Demographic Structure

Recent estimates of Peruvian population have indicated a population of approximately 17.3 million with 3.6 million households and 3.4 million fertile women aged 15 to 44. Roughly two-thirds of the population lives in urban areas (defined as having 2,000 or more residents) which are reached regularly by modern means of communication and who have access to the pharmaceutical distribution system.

2. Incomes

Despite commercial prices which are relatively low by international standards, the income distribution is such that a substantial fraction of the population is priced out of the commercial market. The marketing program should be developed so that it will reach a much larger segment of the income distribution.

One breakdown of urban household income distribution used by a commercial firm is as follows:

Upper and upper middle class (over S120,000 per month	5.5%
Middle class (S25,000 to S120,000)	16%
Working class (S9,000 to S25,000)	39%

It is clear that prices must be set so that households making the monthly minimum wage (S12,000) can afford regular purchase.

3. Contraceptive Knowledge and Practice

Contraceptive knowledge and practice, according to the recently published results of the World Fertility Survey, have the following key dimensions:

a. Knowledge

Over all, 82% of all women 15 to 49 know of one or more modern methods of contraception. In terms of the target groups for this program, the levels are as follows:

Lima and other large cities	97.7%
Other large cities	97.7%
Smaller cities	86.9%

Even in the rural areas, 61% of women have such knowledge. In general, the program can be built on the presumption that a large enough fraction of current non-users have adequate knowledge to make a subsidized commercial program feasible.

b. Practice

The pattern of current use of family planning methods is as follows:

	Ever Used		Currently Using	
	Total	Urban	Rural	Total
Total	48.5%	55.2%	15.4%	41.2%
Modern methods (pills, IUD, condom, spermicide, sterilization, injection)	14.5%	na	na	14.9%
Other methods (douche, rhythm, withdrawal, other)	34.0%	na	na	26.5%

It is clear that the vast majority of women experienced with some form of modern contraceptive are still practicing, so the primary market for the program will be women experienced with family planning but not now using a modern form of contraception.

c. Methods

In terms of methods ever used, the following are reported as a proportion of all methods ever used:

Modern methods:

Pills	13.4%
Condom	6.8%
IUD	2.5%
Injections	4.8%
Spermicides & diaphram	4.7%
Sterilization	2.6%

Other methods:

Rhythm	26.6%
Withdrawal	16.5%
Douche	14.8%
Abstinence	7.2%
Other	2.8%

The popularity of all modern methods indicates that the program should use a multi-product approach.

4. Calculation of the Potential Market

Combining these characteristics:

Urban households with women aged 15-44	3 million
Of these, households with incomes greater than $9,000	1.65 million
Of these, women practicing an ineffective method of contraception	437,000

The primary target is thus 400,000 to 500,000 women.

This target definition is one which can realistically be reached by such a program, but it is, of course, rather restrictive. Other segments might also be considered as secondary markets. For example:

Adding those urban households with incomes under $9,000 practicing an ineffective method	357,000
Adding 1.32 million rural households in the cash economy with women aged 15-44 practicing an ineffective method adds approximately	100,000

These secondary markets, however, will be very difficult to reach due to lack of purchasing power and access to easy sources of supply. There appears no economically feasible way to extend the program to the deep rural areas at this time.

B. A Tentative Marketing Program

This section outlines the tentative elements of a marketing program designed to reach the primary target market listed above.

1. Products

The popularity of a variety of products mentioned discovered in the World Fertility Study indicate that a commercial marketing program should include pills, condoms and at least one simple spermicide, preferably a foaming tablet. The initial assumption should be that local brand names and packaging should be developed and tested as part of the program.

2. Price

In order to allow economic access to these products, a relatively low price must be set to the consumer. First, it is important that the price be a relatively small fraction (preferably less than 1 percent) of the total monthly income of the lower income groups of the target (in this case, S9,000). In addition, the prices should correspond to the purchase price of frequently-purchased items, so that the monthly purchase of contraceptives fits conveniently into regular buying patterns. Representative prices of commonly purchased items are:

1/2 kg. beans	60 soles
1/4 kg. eggs	60 soles
evaporated milk	75 soles
1 liter fresh milk	60 soles
1/2 kg. bread	50 soles
1/4 kg. beef	100 soles
small bar of soap	54 soles
1 kg. rice	64 soles

3. Distribution

The primary market (urban economically active consumers) can be reached initially through the pharmaceutical system, which has over 2,000 outlets. These outlets can be reached on a nearly daily basis by a pharmaceutical distributor, appointed to provide physical distribution for the product.

The distribution of revenue might be as follows:

Price to consumer	S 75
Price to retailer	50

Price to distributor	$30
Packaging costs	3
Net to program	27

Despite the fact that the distribution system is geared to providing a basically urban potential market with contraceptives (supported by product specific promotion) at low prices through pharmaceutical channels, there is reason to believe that some distribution will be secured in rural areas through other stores in situations in which there is no pharmacy. Further, once initial distribution is secured through the pharmacies (see section II.6), the sales force should have the capacity to expand distribution, perhaps of only condoms and spermicides to other types of outlets which might have a better chance to serve the secondary markets.

4. Advertising

The high levels of general knowledge about and experience with family planning indicate that advertising should concentrate on specific, product and distribution-related information. Media advertising may prove to be a sensitive issue, but the reach of broadcast media and the relatively low cost per impression indicate that advertising should be part of the planned program. Radio appears economical and may be more feasible than television, particularly early in the program. Cinema also has potential and may serve as a dry run for TV advertising.

5. Promotion

The program should anticipate developing extensive point-of-purchase materials, attractively designed to draw attention to the product line once consumers enter the retail outlets. Dispensers, display cases and posters are a minimum requirement. Given that local circumstances may allow for limited media advertising with little more than reference to product availability, point-of-purchase materials will be a critical promotional tool.

6. Sales Effort

Sales efforts should include both detailing to physicians and direct selling to pharmacies.

a. A sales force of six persons can call on 350 outlets every two months, at an average of eight per day (more in cities, less in rural areas). This provides about two months to complete an initial sell to all 2,100 pharmacies, and calls about every two months thereafter. After the program is in operation for approximately 1 year to 18 months, it may be reasonable to consider expanding distribution to approximately 2-3,000 non-pharmaceutical outlets for condoms and spermicides. Consideration of non-pharmacy distribution of orals can be a later step.

b. Detailing. The program should anticipate the use of two detail men for approximately 15 months to contact physicians in the private and voluntary sectors. While they are not likely to contact all the 10,000 physicians during this period, it is important to acquaint key physicians, particularly OB/GYN and others interested, with the nature of the program and to secure their cooperation, particularly with regard to medical reference problems.

7. Timing

The new brands should be ready for launch six to nine months after the arrival of the resident manager. The tasks of securing initial distribution and completing the introductory advertising should be completed six months after this, and long-run sales levels should be reached after another eight to 12 months, e.g., 20 to 27 months after the arrival of the manager. Any time between signing of the contract and arrival of the manager must, of course, be added to this estimate.

In addition, a significant test market activity would cause delay for the nationwide launch, although these would also be some gain from experience that can be expanded nationwide. On balance, test marketing might add six more months to the time required to reach full operation.

C. Project Organization

Given the current general context for family planning in Peru, it may be particularly difficult for a totally Peruvian organization to both develop the program and manage it on an ongoing basis.

We recommend the following:

1. A U.S. contractor provide a resident manager for the program for the period required to develop the program, launch it and bring it into full operation. This should require a period of approximately two years after arrival in Peru.

2. Immediately upon arrival, the contractor should hire a local manager who would participate in all phases of program development and become manager after the resident manager leaves.

D. Supply

Issues related to supply are likely to be more complex in the Peruvian situation than in those faced by other subsidized contraceptive marketing programs, largely due to restrictions on importing of finished goods. The options seem to be these:

1. Direct import of finished goods as a "donation" funneled through the local sponsoring organization which, in turn, passes it on to the distributor. Such an arrangement is likely to require delicate legal negotiation, but is likely to be least costly.

2. Import of certain raw materials (especially steroids) for processing and packaging by local manufacturers of similar products. Since the program will, in any case, involve repackaging, this option is consistent with Peruvian industrial policy (which is not likely to be waived), but is likely to be costly.

3. The use of locally purchased products manufactured to strict quality control standards and secured through channels other than direct USAID procurement. This arrangement has been used effectively in Mexico.

E. Revenues and Costs

Analysis of costs and revenues are divided into two parts. The first involves the launch period when expenses are high and revenues negligible. The second involves "normal" or equilibrium operation.

1. Costs of Development and Launch

The costs of development and introduction of the products, most of which will be incurred in the first year prior to launch of the program, cannot be covered by revenue from the program. These are primarily development costs and costs of advertising and promotion. In addition, it includes costs of administration for at least two years. It is assumed that the sales force will be recruited six months after arrival of the resident manager, and that the major promotional effort will occur during the first six to eight months after the launch.

a. Marketing expenses

Marketing expenses for the first two years should be considered an investment in the program that will not be covered by revenues. They include:

Market research	• motivation research • interviews with retailers • brand and package development • copy testing	$ 30,000
Sales expense	• six salesmen and travel expenses for 1 1/2 years at $600/month	64,800
	• two detail men and travel expenses for 1 1/2 years at $750/month	27,000
Advertising expenses	• media, primarily radio, with cinema & print	75,000
	• production	25,000
In-store promotional material, including display units, signs, posters, etc.		73,500
Total Marketing Investment		US$295,300

b. Costs of project management

Project management will include costs of maintaining a contract manager plus the local manager during the first two years:

Resident Contract Manager (including maintenance)	
@ $75,000/year	$ 150,000
Local manager @ $10,000/year	20,000
Office expenses and secretary @ $10,000/year	20,000
Two Year Management Expense	$ 190,000

Combined two-year marketing and management costs are US $485,000. In addition, overhead charges will be added by the contractor according to prior arrangements with AID.

2. Costs and Revenues at Equilibrium

In full operation, the program can be expected to penetrate from 15 to 25 percent of the target market defined earlier. Approximate revenue and expenses for each are as follows:

	At 15% penetration	At 25% penetration
Revenue to the program	US $100,000	US $155,000
Marketing expenses		
Sales expense	30,000	30,000
Detailing	10,000	10,000
Advertising and point of purchase	55,000	75,000
Net to program	US $ 5,000	US $ 30,000

All of the above estimates are based on the assumption that contraceptives are made available free of cost to the program. There appears to be no way for the program to maintain the recommended prices and pay for products.

It thus appears that, in full operation, a subsidized marketing program can break even. If it is relatively successful, it appears that it could also pay the cost of administration (usually a project manager, secretary and office) although a cash subsidy of $10,000 to $20,000 may be needed for that purpose if the lower goals are met.

III. PRE-PROJECT ACTIVITIES

As a first step towards resolving the potential administrative and programmatic problems mentioned earlier, it may be useful to arrange a meeting between interested Peruvians and others who have had experience with developing and implementing subsidized commercial contraceptive marketing programs. Non-Peruvian participants might include program managers and public sector/government counterparts in other CRS programs in the Western Hemisphere (Mexico, Jamaica and El Salvador). Peruvian participants may include government officials, public sector organizations which might sponsor the project, manufacturers, distributors of pharmaceuticals and other consumer products, and members of advertising agencies. The meeting might deal with such general issues as how projects have been organized in various political situations and under various population policies and with specific activities such as distribution and advertising.

IV. PROJECT DEVELOPMENT

This section outlines areas of activity to be specified in competitive proposals for a subsidized contraceptive marketing project in Peru. These proposals, which will involve a visit by each bidder to the country and consultation with various involved parties, will provide more specific detail of program elements than are included in this feasibility report.

Activities to be addressed in each technical proposal should include:

A. Background Information

1. Statement of trends in socioeconomic demographic status and key indicators related to the commercial market and to the national family planning program.

2. A review of all available material on knowledge about, attitude toward and practice of family planning by current and potential consumers.

3. Description of the role of culture, ethnic diversity, language, religion, education, literacy, and social organization in family planning in general and on marketing of consumer products.

4. A statement of laws and policies governing family planning activities and marketing of various contraceptives.

5. A description of the activity levels of various components of the medical delivery systems.

6. A description of social security and other insurance programs.

7. A list of all important distributors and manufacturers of contraceptive products.

8. Estimates of volumes and trends of movement of contraceptive products through commercial, government and voluntary organization channels. This should include all brands on the market along with their retail prices and margins and all brands available in non-commercial channels.

9. Background information on the current government and voluntary family planning programs including approaches to education and communication.

10. A clear statement of the specific reaction of all interested parties (including potential suppliers of services to the program and significant suppliers of contraceptives in the private sector, Government of Peru, USAID/Peru and relevant commercial and voluntary organizations whose participation or cooperation would be necessary), to the general concept of a commercial distribution program and to the specific elements of the proposal.

B. Analysis of Marketing System

1. Distribution - distributors, wholesalers, retailers or a variety of consumer products, including pharmaceuticals. This should include conventional margins, terms of business, inventory practices and selling practices. It should also include numbers of outlets of various types and the number of outlets used for distribution by some representative consumer products.

2. Advertising

a. Importance of various media in the advertising mixes of relatively heavily advertised consumer products. This should include attention to media, message type and geographic placement.

b. Advertising rates and estimates of costs of production and cost per exposure for each medium should be included.

3. Promotion - A general summary of promotional practices, including examples which might be used by the proposed program.

4. Prices - Retail prices of representatives, frequently purchased consumer products.

5. Packaging - A statement and description of the quality of packaging and the importance of the role it plays in product promotion in Peru.

C. Preparation of a Marketing Plan

The bidder will prepare a draft marketing plan for implementation at a nationwide level, along with procedures for moving from local trial to national distribution.

1. Definition and analysis of target market, including enumeration of the specific market segments to be served. This should include segment size, potential and socio-demographic characteristics. It should also include the level of general knowledge, attitude and practice of family planning, and of specific contraceptives in the segment.

2. Objectives in terms of volumes to be achieved during the program and including expected sales levels during the introductory and maintenance phases.

3. Elements of the Marketing Plan

a. Establish prices to consumers at a level which will make contraceptives available to the target market chosen;

b. propose procedures for developing and testing brand names;

c. propose a specific distribution structure for the various contraceptive products including the number and type of retail outlets and their geographic coverage;

d. establish margins for compensation of the various elements of the distribution system;

e. lay out procedures for developing and testing packaging and point-of-purchase materials;

f. propose a schedule of advertising and promotion, including media and expenditures;

g. examine the potential for the use of vending machines;

h. propose consumer instructional material for each contraceptive product in the program and appropriate tests;

i. propose methods for training retailers in sale of products and use of instructional materials;

j. propose an information system and program of ongoing research to provide information for management of the launch and for post-program evaluation.

4. Introductory Program

In addition to the nationwide program, the bidder should propose a schedule for introduction, with test market activities designed to deal with both marketing problems and with political problems that a nationwide program might face. These might include a number of geographic areas and economic segments in the defined market. Test market development should include recommendations for locations for initial introduction supported by rationale for site selection and timing, as well as data gathering procedures and uses of information gained for recalibration of the nationwide program.

D. Procedural Elements of the Program

The bidder should:

1. Propose methods and criteria for choosing an advertising agency and identify candidates;

2. propose methods and criteria for choosing a distributor or distributors and identify candidates;

3. propose methods and criteria for choosing an organization to perform marketing research and identify candidates;

4. propose methods and criteria for choosing an organization to provide packaging and preparation of point-of-purchase materials and identify candidates;

5. establish a time schedule for developing and testing components of the marketing program, and for launching the products;

6. establish procedures for measurement of program results against objectives;

7. propose procedures for securing supplies, either through import or partial local manufacture, including exemption from duties;

8. propose procedures for initial stocking of products by various elements of the distribution structure;

9. propose procedures for providing necessary information to physicians in the private sector.

E. Measurement of Project Output for Nationwide Project

The bidder should establish measurement techniques in terms of the following:

1. Movement of subsidized products relative to objectives;

2. a detectable increase in sale and use of contraceptives through commercial outlets;

3. behavioral measurements of increased knowledge and awareness;

4. inferred impact on family planning activities.

F. Project Organization

The bidder should:

1. Provide alternative methods for program continuation after expiration of the contract;

2. propose means to establish and maintain continuous and open communications and relationship among interested parties;

3. propose a timetable for project activities, including length of time before project is launched, reaches full expected level of activity, and can be expected to be self-sufficient in any sense (e.g., totally, except for product costs, etc.);

4. establish necessary procedures for accounting and control of project inventory, receipts and disbursements;

5. establish reporting procedures for monthly, quarterly and annual reports of sales, distribution;

6. establish procedures for hiring and training a counterpart marketing manager and salesman.

G. Post Contract Award Activities

The bidder should propose procedures and organizational framework to:

1. Establish relationships with government representatives, voluntary organizations and representatives of the medical, pharmaceutical and business communities;

2. hire and train local personnel;

3. revise the marketing plan after consultation with firms in distribution, advertising and market research.

H. Cost, Revenue and Volume Estimates

The bidder should provide:

1. Initial and recurring costs for developing distribution;

2. initial and recurring cost for developing the advertising program;

3. cost of required market research;

4. initial and recurring cost for packaging;

5. costs for personnel and support required to develop and manage the program;

6. total costs of the project by year;

7. gross and net revenues by year.

APPENDIX A

SOURCES OF INFORMATION

Persons

1. Jose Castagnetto, Director, Latex, S.A.
2. Alicia Castillo de Sebastiani, Research Director, McCann-Erickson, S.A.
3. Jan-Peter Stobbe, Schering, S.A.
4. Fritz Gruber, Asst. Manager, Quimica Suiza
5. Julio Romero Visconti, General Manager, McCann-Erickson
6. Gustavo Sanchez Salazar, Marketing Manager, Schering
7. Dr. Ernest Adler, Schering
8. Miguel Calderon, Manager, Caltex
9. Helene Kaufmann, AID/Lima
10. Leonard Yaeger, AID/Lima
11. Arthur Danart, USAID/Washington
12. Walter Torrez, Columbia University/Lima
13. Dr. Brazaduro, Roche
14. Walter Mertons, Ford Foundation/Lima
15. Dr. Larenyago, Instituto Marcelino
16. Mario Perotti, Gillette

Books

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