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SCALING UP A LAST MILE SOCIAL FRANCHISE IN GHANA

HEALTH KEEPER

May 2009

This publication was produced for review by the United States Agency for International Development. It was prepared by Jeff Barnes and Denise Averbug for Private Sector Partnerships-*One* project.

PSP-*One*
PRIVATE SECTOR PARTNERSHIPS FOR BETTER HEALTH

Country Report

Country Report Series: PSP-*One* Country Reports were developed to inform specific PSP-*One* country program operations, but they also contain results that may be of interest to a wider audience. All papers in the series were reviewed by PSP-*One* technical staff in the field and in Washington, DC, as well as by relevant PSP-*One* program management staff.

Recommended Citation: Barnes, Jeff and Averbug, Denise. May 2009. *Scaling Up a Last Mile Social Franchise in Ghana.* Bethesda, MD: Private Sector Partnerships-*One* project, Abt Associates Inc.

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Contract/Project No.: GPO-I-00-04-00007-00

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SCALING UP A LAST MILE SOCIAL FRANCHISE IN GHANA

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ACRONYMS

FFH	Freedom From Hunger
GSMFEL	Social Marketing Foundation Enterprises Limited
HK	HealthKeeper
NGO	Nongovernmental Organization
MBH	MicroBusiness for Health
PSP-*One*	Private Sector Partnerships-*One*

ACKNOWLEDGMENTS

PSP-*One* would like to thank Daniel Mensah and the MBH team for the complete transparency and openness with which they supported the PSP-*One* mission.

1. BACKGROUND

In September 2008, Private Sector Partnerships-*One* (PSP-*One*) conducted an assessment to identify support strategies for the MicroBusiness for Health (MBH) franchise being piloted by Freedom from Hunger (FFH) in Ghana. In this social franchise, a neighborhood rural woman becomes the local sales representative and franchisee, or HealthKeeper (HK), for a line of health products. As the franchisor, MBH provides the women with health and other products to sell, training on sales and health promotion, and credit for their first basket of products. The specific objectives of the assessment were to:

- Identify ways to improve efficiency and cost recovery in the franchise model, especially in the area of distribution;
- Assess short- and long-term prospects for sustainability;
- Recommend appropriate monitoring and evaluation activities.

2. METHODOLOGY

To better understand the MBH operation and its challenges, the PSP-*One* team spent most of the time with MBH staff observing their activities and analyzing their internal operational and financial reports. The PSP-*One* team also attended a supervision and resupply session of HKs with MBH staff in the Sege district and conducted some interviews with individual HKs. Finally, PSP-*One* interviewed other key informants in Ghana who were knowledgeable about the distribution mechanisms for health products in the country and about the opportunities for HKs to work with other health promotion programs.

3. FINDINGS

As of September 2008, the MBH network has grown to 83 HKs, all of whom operate within a 100 km radius of Accra. The products in the HK basket fall under two categories. The "core products" are the health protection products that MBH is most interested in increasing access to, such as insecticide-treated nets, oral rehydration salts, contraceptives, and water treatment tablets. The HKs are expected to actively promote these products in their communities and are trained to educate on their use. The "door openers" are household products such as soap, toothpaste, and wound care items that usually "sell themselves" and are a good source of revenue for the HKs. MBH currently procures and distributes all of the products directly to the HKs.

The sales volume of the network is still relatively small. The value of all core products sold to the HKs for the year ending July 1, 2008 was 6,760 Ghana cedis (about US$5,800) and the value of door opener products sold was 15,098 Ghana cedis (about US$13,000) during the same time period. Prior to the assessment, PSP-*One* had hoped to explore ways for MBH to spin off or at least relieve itself of the management burden of distributing the door openers. After meeting with staff and especially after meeting with HKs, it was clear that selling door opener products is an essential element of the social franchise "bundle" that attracts the HKs into the network. This means that running a commercial wholesale operation is an inherent part of this network's double bottom line, which must reconcile commercial and social objectives.

3.1 THE COMMERCIAL-SOCIAL BALANCE

The MBH initiative is attempting to overcome the long-standing challenge of increasing access to essential health products in rural areas in a sustainable way. However, as with all social franchises, a balance needs to be achieved between commercial and social objectives. The main challenge lies in establishing a commercially viable product distribution system, given that long distances need to be traveled in order to reach a relatively smaller amount of people (and with generally lower purchasing power) in the "last mile." Added to this challenge are the extra costs of providing training and supervision to the HKs. MBH needs to balance its social mission of reaching people in remote areas with quality health products and education with the need to operate as a commercial entity in order to be financially sustainable. Table 1 outlines the main commercial and social objectives and activities of MBH.

TABLE 1: MBH'S COMMERCIAL-SOCIAL BALANCE

Commercial Objectives	Social Objectives
▲ To manage an efficient wholesale operation to be competitive and attract entrepreneurial women to be HKs ▲ To achieve sufficient scale through the size of the MBH network and the volume of sales to increase buying power and to increase cost recovery of administrative, marketing, and educational expenses	▲ To increase access to essential health and personal care products in last mile rural communities ▲ To promote the correct use of essential health products through education and behavior change communications

Commercial Activities	Social Activities
▲ Buying personal care and health products at discounts and reselling them to HKs at competitive prices on credit ▲ Promoting the HealthKeeper brand to enhance the community perception of the HKs and the products they promote and sell ▲ Managing stocks and delivery of products to HKs during biweekly monitoring meetings ▲ Managing credit appropriately to facilitate sales while maintaining sufficient cashflow and minimizing bad debt expenses	▲ Training HKs in the health issues related to the products they sell (e.g., malaria, diarrheal disease management, family planning, HIV/AIDS prevention, eye sight, etc.) ▲ Motivating HKs to conduct "learning parties" to provide health education and promote use of health products ▲ Monitoring HKs to ensure that they provide correct information to consumers and refer clients to appropriate health facilities when necessary ▲ Brokering partnerships and support with governmental and nongovernmental organizations that can provide technical, financial and logistical support to HKs' social activities

Another way to understand the franchise is to analyze the perceived costs and benefits from the perspective of the franchisor and franchisee. The benefits from the franchisor's perspective include both aspects of the double bottom line. The perceived costs and benefits from the franchisee perspective vary considerably from one HK to another. The list in Table 2 is intended to be illustrative of the most likely perceived costs and benefits.

TABLE 2: COST BENEFIT ANALYSIS

	Franchisor (MBH)	Franchisee (HKs)
Benefits	▲ Increased reach of franchise-improved access to health products for target groups ▲ Increased economies of scale, purchasing power ▲ Profit margin on resale of products to HKs ▲ Income from franchise fees ▲ Sales and activity data to demonstrate impact of activities	▲ Income from selling ▲ Access to quality products at competitive prices ▲ Ability to purchase products on credit ▲ Participation in a social network ▲ Improved standing in the community ▲ Training on health issues ▲ Branding of baskets, aprons, and signs
Costs	▲ Costs of purchasing, storing and delivering health products ▲ Costs of providing branded aprons, baskets, and signs ▲ Costs of training/retraining and supervising HKs on health topics ▲ Risks in extending and taking credit ▲ Management and reporting burden to donors funding social activities	▲ Time spent selling, travelling to meetings, and attending training ▲ Time and effort spent organizing "learning parties" in their communities ▲ Financial costs of travel, telephone calls, and franchise fees ▲ Risks in giving and taking credit ▲ Time and effort in recording and reporting sales data

	Franchisor (MBH)	Franchisee (HKs)
	▲ Monitoring and evaluation needed to show health impact	▲ HKs must agree to only source products from MBH

3.2 A TALE OF TWO PRODUCT FRANCHISES

The MBH model obviously draws on experience from the Ghana Social Marketing Foundation Enterprises Limited (GSMFEL) CareShop experience. This is not surprising since MBH's director, Daniel Mensah, had an important role in the CareShop network of licensed chemical sellers. The MBH model has clearly applied some key lessons learned, but at the same time has taken on a greater challenge of taking medicines and health products down to the last mile. As mentioned earlier, the last mile challenge is to maintain sustainable provision of products while incurring higher distribution costs to reach lower numbers of consumers. This means that the HK franchise has even less opportunity to achieve high cost recovery than CareShops.

One of the challenges the CareShops network faced is that licensed chemical sellers had existing relationships with competing suppliers and had much greater price competition in their markets. On the positive side, the MBH network has less competition as a source of supply in their target communities. However, in some cases the HKs do compete with licensed chemical sellers in their communities. In addition, the individual HKs are also smaller than the licensed chemical sellers, they work part time, and they have less proven business acumen, so the MBH franchise is likely to face higher rates of attrition, and require more basic business training than under the CareShop model. Table 3 provides additional comparisons of the two models on different criteria.

TABLE 3: COMPARISON OF CARESHOPS AND MBH

Criteria	CareShop	MBH
Improving access	Since the franchise was converting existing product delivery points, the franchise did not really increase overall access. Unclear whether the franchise helped increase access to specific medicines by promoting them.	MBH franchise is increasing general access to health products by creating delivery points in the last mile and conducting door-to-door sales, where none existed.
Purchasing power of the franchisor	Moderate – Higher volume levels should have provided more leverage, but GSMFEL was too optimistic in its expectations for supplier discounts and obtaining all the products desired by the licensed chemical sellers through a limited number of suppliers was difficult.	Low – Working with part-time sellers who serve small communities means that sales volumes will necessarily be lower per sales point. The network will have to grow the number of HKs significantly to achieve sufficient scale to provide improved buying power.
Potential for high cost recovery and sustainability	Moderate – selling to existing licensed chemical sellers means working with established businesses with regular sales volumes. Competition with sources of supply other than the franchisor is higher, however.	Low – The cost of training and monitoring are higher than with licensed chemical sellers while the ability of each HK to pay for network costs is lower.

Criteria	CareShop	MBH
Improving quality of products and services	Franchise training focused on improving business practices and prescribing practices. Much of this improvement may have only improved perceived quality, but there was some improvement in prescribing practices and referrals. Correct prescribing of malaria drugs improved from 10 percent to 18 percent.	It is too early to assess the impact on improved quality of product supply. HKs are expected to conduct more active health promotion than CareShop franchisees, but it is unclear how much effort will be spent on "learning parties" or what impact these activities will have on increasing demand or improving health behaviors.
Impact on the commercial sector	Provided some positive downward pressure on prices. In direct competition with pharmaceutical wholesalers.	Providing downward pressure on prices in rural areas. Some competition with licensed chemical sellers that may be operating in the same catchment areas as HKs.
Public health impact	Unclear – Not documented with and evaluation.	Unclear – Not documented.
Ability to control franchisees	Incentives are good, but franchisees had previous relationships with other suppliers and business practices that may be difficult to change.	Essentially all HKs are being put into business by MBH. This creates more challenges in training, but also means it is less likely that HKs will source products from other suppliers and will be more loyal to the franchisor.
Logistical requirements	Large – Significant volumes are required for success and delivery to shops is a key element of what franchisor is offering. Even with three vans, resupply was challenging.	Moderate to large – At the outset, resupply needs are small because sales volumes are small, but the distances to deliver are greater and will increase as franchise expands.
Other franchisee support	Infrastructure: Significant support required for inspection of premises, branding, uniforms etc. Training: Higher knowledge level to begin with, but still significant training investment needed and some bad habits to be broken.	Infrastructure: Minimal real infrastructure support. Limited to the branded baskets and signs and clothes. Training: More emphasis on health promotion than in knowledge of drugs, drug quality etc. Significant needs for ongoing training and technical updates in areas of health promotion.

3.2.1 LESSONS LEARNED FROM CARESHOPS

One lesson that MBH has learned is to avoid the heroic assumptions about how much margin they can earn in reselling products to franchisees. CareShops' business plan assumed they could negotiate 25 percent discounts on products procured and could keep 20 percent of this discount to cover their operating costs while passing only 5 percent discount on to franchisees. This was wildly optimistic, especially given that the franchisor was only sourcing products from within Ghana and was not procuring products on the international market. This was compounded by their inability to limit the range of products they had to procure, so the franchisor lost additional purchasing power by having to spread procurement across a wider range of products and more suppliers.

Another important lesson that FFH is applying to the MBH network is to keep the franchisor support function lean and simple. In spite of significant donor support, the CareShop franchise did not generate a profit, or even an excess of revenues over expenses except in the first year when donor contributions

were received. Because it had an ambitious agenda for recruitment, training, and branding, administrative expenses for Careshops were in excess of 50 percent of operating costs.

It is unclear whether the MBH franchise will be able to achieve the economies of scale to obtain large discounts. Already, FFH is procuring products from 12 different suppliers in very small quantities, so it seems unlikely that they will be able to achieve significant discounts while still passing on competitive prices to their HKs. Achieving economies of scale in product procurement is central to the franchise function in the MBH model, so new strategies need to be developed to achieve them. This is especially the case in Ghana where the fast-moving consumer goods sector is so fragmented. Because the HKs work part time and serve smaller numbers of consumers than the CareShop franchisees who were licensed chemical sellers, the challenge in achieving economies of scale will be greater.

Another lesson that MBH needs to pay more attention to are the risks and costs involved in extending credit. GSMFEL suffered loss of operating capital and profits due to large credit balances and bad debts, which contributed to their inability to grow the franchise. MBH risks going down the same road since it is extending significant levels of credit to HKs who themselves are passing credit on to their clients. Currently MBH expects to be able to recover this credit if HKs quit the franchise or refuse to pay because they know where the HKs live. However, besides hurting the social image of MBH, the time and cost of going to the HK's home and seizing unsold stock or other assets to repay the loans could well exceed the amount that is recovered. Moreover, it is surprising that none of the business plans written by MBH have made a provision for bad debts. While it is difficult to determine at this early stage what percentage of outstanding debts will prove to be uncollectable, it seems prudent to reserve at least 5-10 percent of sales for bad debts.

3.3 PROSPECTS FOR SUSTAINABILITY

PSP-*One* has developed concepts around social marketing sustainability that are described in *Moving Towards Sustainability: Transition Strategies for Social Marketing Programs*. Although the HK franchise is not a social marketing operation, the PSP-*One* team feels that the elements of the sustainability continuum are also applicable to the HK franchise.

Technical sustainability: Technical sustainability refers to having the range of technical skills needed to run the operation effectively available within the organization. Overall technical sustainability of MBH is good with room for improvement. The MBH team is small with good management experience and limited health expertise. However, the model of leveraging existing technical expertise through partnerships is cost effective and appropriate. MBH should continue to draw on the health expertise of FFH and other in-country resources to develop materials and train MBH staff involved in training and supervision.

Strengths: MBH purchases all of its products and is managing a cost-effective wholesale operation. Rapid expansion may test the limits of MBH technical capacity, but they seem to anticipate the needs for growth. The approach of using small supervisory and resupply teams is cost effective. MBH is also making the most of technical resources for the demand creation for products through interpersonal communication and education.

Weaknesses: The range of health products in the basket necessitates a greater level of technical depth among the trainers and monitors resupplying the HKs and supporting their demand creation efforts. Also, staff would need support to improve monitoring and evaluation activities. In the

growth stage this weakness is not critical, but as scale-up continues and stakeholders require proof of impact, MBH staff will need to be able to manage these functions.

Financial sustainability: Overall weak, but can be improved. With good management, over the next three to five years the level of cost recovery could move from 5 percent to 50 percent and still balance the commercial objective of financial sustainability with social objectives of increasing access to and demand for quality health products. At this stage of the franchise development 5 percent cost recovery is probably appropriate.

Strengths: MBH's accomplishments are impressive given its lean budget. MBH is right to plan for a lean budget for essential support activities rather than make investment in services that franchisees are unlikely to be willing to pay for and that cannot be easily undone.

Weaknesses: Consumer prices are low and profit from sales is not enough to recover significant share of costs at low volumes. MBH acts as its own distributor, incurring high operational costs and logistical burden. The program is still young, and dependent on external and donor funding; maintaining or improving efficiency of social activities (i.e., training, supervision) as the program scales up and expands geographically will be a challenge.

Institutional sustainability: Overall a good strategy, but it depends on ability of MBH to grow and mature as an NGO. The link to the US-based nongovernmental organization (NGO) FFH is an advantage for ensuring institutional stability, but it is important that FFH continue to delegate considerable operational authority to MBH.

Strengths: MBH has strong transparent management and a small talented local staff with a strong entrepreneurial spirit. The link to FFH provides access to US funding and technical assistance.

Weaknesses: Cost-accounting and control systems exist but need to be strengthened before MBH scales up significantly.

Market sustainability: Overall weak. There is a need for all products in rural areas but it remains to be seen whether ability to pay by consumers will sustain the MBH business model. In some cases, HKs are competing against licensed chemical sellers who may be satisfying the existing demand.

Strengths: Bundling of new innovative health products that require education and promotion with mature products is a good way to inject some market sustainability into the promotion of health products that have potential, but are not yet commercially strong. Most commercial retail outlets do not go the last mile where HKs are being recruited.

Weaknesses: Purchasing power of target market is very low (base of the pyramid), limiting product consumption. Pressure for sales on credit from consumers is also a threat to the scheme.

Even while citing its weaknesses in the different components of sustainability, PSP-*One* feels that the HK franchise should not be held to too high a standard for financial sustainability. For the next two to three years, it is in a growth and expansion phase and even commercial models in this sector require some period of losses before reaching their breakeven point. Too much emphasis on achieving financial self-sufficiency could lead to failure in achieving either the social or the commercial objectives. What is more important is that the MBH franchise be as financially sustainable as it can while it grows and maintains a balance between commercial and social objectives.

3.4 COMPETITIVE ANALYSIS

Social Competition: Another key to MBH's future success is ensuring that the franchise can add value and be competitive both in its commercial as well as its social objectives. The participation of HKs and the economies of scale that are critical to its success require that MBH be able to manage a competitive wholesale operation and that the majority of the HKs are able to run successful retail operations.

The "competition" for social objectives will come from many quarters and may not be understood to be competition – e.g., the public sector, rural development NGOs, and social marketing organizations. Some of the competition for health education should help the sales of health products. However, the HK franchise will have to demonstrate its social value added or it will have difficulty attracting donors to provide the needed subsidies for the health promotion component. Attracting stakeholders for social investments in training, promotion, and communications is another key part of the value proposition to rural consumers and also critical to achieve the economies of scale.

The best way for MBH to manage this competition is to ensure that the HK franchise does not attempt to duplicate other health promotion activities and is serving population groups that are not being reached by other social organizations. Wherever possible, HKs should take advantage of other investments in health education tools (curricula, promotional materials, visual aids, etc.).

Wholesale Competition: For the purchasing function of the HK franchise, MBH is in direct competition with the commercial wholesalers, of which there are many in Ghana. An essential element of the strategy is MBH's ability to procure health products from importers and distributors in volumes and obtain discounts that can provide profits to be shared between the franchisor and the franchisees. As its volumes grow, so does its negotiation power with distributors. If its volumes are low and if it cannot convince distributors that the franchise is reaching untapped distribution channels, the HK franchise will lose its competitive edge both in purchasing products at discounts and consequently at the retail level where the HKs' price are likely to be too high for rural consumers. MBH will need to ensure that distributors appreciate the value added of a rural distribution network since this is a position few of the other wholesalers are likely to duplicate.

Retailer Competition: In theory, the HK franchise has little or no retail competition because they are recruiting franchisees in last mile communities where there are no retailers. In reality, it seems that some of the HKs do sell in towns where there are also licensed chemical sellers who are the most likely source of retail competition. Since the licensed chemical sellers have shops and more cashflow, they have greater economies of scale and may be able to obtain discounts without depending on a franchisor as intermediary. In these situations, HKs can only compete on the basis of convenience and the perceived value added they provide through their promotional efforts. To avoid making competition more difficult, it is preferable that the HKs be recruited from towns where there is no licensed chemical seller.

Even in the last mile communities where there are no retailers, there are very often people who engage in trading as a part-time activity who travel to and from the larger towns on a regular basis. Ideally, these are the people who should be targeted for recruitment as HKs. In any case, in the recruitment process, MBH should ensure that HKs are not competing directly with such "village retailers" as this could potentially lead to conflict and will make it very difficult for the HK to achieve profitability. Where such conflicts occur or develop the HK should try to focus on the health products that are not being carried by the competing retailer. This may make it harder for the HK to earn a profit, but it will also remind consumers and potential competition of the social objective of the HK which should promote

acceptance of the franchisee activity. Introducing products like oral contraceptives that are unlikely to be carried by village traders should help this comparative advantage.

3.5 REVIEW OF BUSINESS/FINANCIAL PLAN

MBH is to be congratulated on developing a very detailed business plan that projects simplified income statements eight years into the future at what should be its breakeven point (i.e., when revenues from the franchisor exceed the expenses). The plan takes into account all operational needs including staff, office operating expenses, travel, and training. It is built around realistic growth projections for recruitment of HKs and the retail margins and discounts obtained through bulk purchases.

Like all business plans, this one uses key assumptions that may have a weak evidence base, but are required to project a plan for success. With a start-up operation, there is no historical record to serve as an evidence base, so making assumptions is inevitable. Typically, assumptions are grouped in order to develop optimistic, realistic, and pessimistic scenarios. MBH may want to consider doing this exercise in order to develop best-case and worst-case scenarios for subsidy requirements. In addition, PSP-*One* feels there are some factors in the business plan that should be added or reconsidered.

The level of sales by each HK seems, at this stage, rather optimistic. Keeping in mind that HKs have limited cashflow and the fact that they are operating part time, it seems unrealistic to project average turnover per HK to grow from 767 Ghana cedis to 1,535 Ghana cedis. From the Quickbooks reports on inventory sold from July 2007 to July 2008, the average purchase for 60 HKs was 364 Ghana cedis, although it is understood that most of those 60 HKs were just starting out and did not operate a full year. Even allowing for that, the projected turnover seems optimistic.

One of the reasons PSP-*One* believes these projections are unrealistic is that the plan has not made an adequate provision for bad debt expense. Although MBH does not recommend credit sales by the HKs, some of the HKs are selling products on credit in their community. It is not known precisely what share of the HKs is doing this. While understandable from a social standpoint, failure to repay the debts at the consumer level will impact the HKs' ability to repay MBH and potentially slow down or stop the entire operation. MBH needs to emphasize the importance of cash sales during its supervisory visits and limit its exposure to bad credit accorded to the HKs. MBH has a two-tier policy on credit, offering more flexibility on credit for core health products and less on the door openers. This is consistent with MBH's social objectives, but it still increases risk that is not adequately anticipated in the plan. Among HKs being supervised during the PSP-*One* visit, several had already exceeded their repayment deadlines and the supervisor had to negotiate new payment terms on the spot.

The financial plan also needs some narrative to document the thinking behind the assumptions, particularly during the growth stages. Most of the fixed costs will go up in a step-like fashion when the decisions are made to hire more staff, rent a larger warehouse, purchase a new vehicle, etc. It is important to document what growth and profit conditions have to be realized before proceeding with those increased investments. Making those expansion decisions before the conditions are right are as risky as waiting too long to make them and suffering the consequences in lower program quality. The current arrangement with two-person teams in charge of resupply and supervision seems appropriate and certainly not extravagant.

One of the areas to be described in more detail is the logistics of the operation and how MBH plans to use motorbikes. It is difficult to evaluate whether the project vehicle expenses will be adequate for anticipated growth. Using motorbikes for individual training or supervisory activities would be more cost

effective than vehicles. However, the core business depends on the efficiencies obtained by combining product resupply with training and supervision. Because the product supply is often the main attraction of the HKs, the logistical arrangements should support this bundling of supply with supervision.

Staffing needs are hard to understand just from the financial plan. The main increase for staff will be as new supervisory/resupply teams are added to manage the newly recruited HK clusters. Here again, the underlying assumptions need to be explicit so it is clear when recruitment for a new team and purchase of their support vehicle must take place. Since this is directly tied to the success in recruiting HKs, this should be fairly easy to specify. Less clear cut is when the operation will need and will be able to afford another accountant or someone in charge of collecting and analyzing sales data. As the scale-up continues, the sheer volume of the sales and financial transactions will multiply and will be too much for the existing management structure.

Some other items in the plan that seem too optimistic:

- Warehousing costs with minimal growth.

- No provision or expense for damaged or lost stock.

- Only 5 percent attrition of HKs seems low given the competition they face with consumers with low ability to pay.

- The cashflow projections don't seem to have taken sufficient account of how much money will be tied up in inventory and receivables throughout the year.

Ideally, each of these assumptions can be revisited and grouped so that optimistic, realistic and pessimistic scenarios are developed. For example, 5 percent attrition might be the assumption for the optimistic scenario, while 10 percent was used for the realistic scenario and 20 percent for the pessimistic scenario.

Finally, on the revenue side, the plan only considers the revenues from product sales and HK fees. There is an implied assumption that the difference between revenues and expenses will have to come from donor support. It is not clear whether FFH has committed to making up the entire shortfall over the life of the eight year plan. Rather than assuming the difference between revenues and expenses will have to be funded from donor support, PSP-*One* feels that the plan could be strengthened by specifying target donors for specific programmatic costs. This way, the plan serves not only as an operational guide, but also as a guide for the necessary fundraising MBH will have to do to build the franchise. For example, the training costs in the plan seem quite low if the franchise is going to maintain the quality of its health promotion activities. There are many national and international donors that would be only too happy to support such activities in a variety of areas. Moreover a weak training program and inattention to the quality of outreach could discourage donors from supporting the overall scheme. Marketing and branding activities that include more health promotion might also attract support. As MBH develops different ideas for improving the operations, they could be pitched to different donors and piloted with however many clusters of HKs that the donor is willing to support.

For example, it seemed apparent from talking to the HKs that their two biggest constraints are communications and transport. MBH might consider using donor support to provide cell phones and branded bicycles to a group of HKs so they can expand their market coverage, phone in orders more

efficiently, and become more profitable. It would be useful to compare the results in sales, product use, and profitability under such a pilot scheme with HK clusters following the usual model. See Recommendations in section 4.

3.6 MONITORING AND EVALUATION

MBH is focusing on three areas namely:

1. **Scale** in the number of poor people who benefit

2. **Impact** on individual lives, families, and communities

3. **Sustainability** of delivery of large-scale impact over time

Effective monitoring and evaluation of MBH's activities and impact are vital to ensure that these goals are met and that MBH achieves a healthy scale-up. MBH's current system of accounting and sales tracking allows them to monitor sales made to the HKs and produce useful sales data by HK, product, and other parameters. MBH is currently making good use of the Quickbooks program to track expenses and revenues. Indeed, their accountant was able to provide custom reports as requested to the PSP-*One* team. At the time of PSP-*One*'s assessment, MBH was in the process of entering months of backlog sales data into the recently acquired software *Salesforce*, which is available through free downloads. Once this time-consuming task is completed, MBH will be able to easily produce reports that will reveal valuable information pertaining to sustainability such as HK performance and trends over time. Both programs can produce a wide range of financial and sales data that are important to track. However, MBH needs to decide which of all the sales and financial indicators are most relevant to their broader goals, especially sustainability.

MBH faces two main monitoring and evaluation challenges in terms of measuring scale and impact. The first is data collection at the HK level. Initially, the program intended for the HKs to collect a lot of information on their customers for each sales transaction of core health products. MBH went through several iterations of data collection forms that HKs were expected to complete. However, it quickly became clear that this was not a realistic expectation, as compliance to these forms was close to none, HKs did not see any value in taking their time to complete the forms, and even MBH was not sure how it was going to use the data. MBH is very much aware of this issue, and is currently working with FFH headquarters to revisit HK data collection using a participatory approach.

Related to this first challenge, is the challenge of measuring whether MBH's social objectives or *raison d'être* are being met. There are several questions that MBH would like to answer related to scale and impact, including:

- How many people are the HKs reaching?

- Are they reaching consumers in the lowest income quintile?

- Is MBH actually increasing access to health products in its target areas?

- Is MBH improving knowledge about health protection and prevention?

- Is MBH changing behaviors and increasing use of essential health products?

Systematic data collection at the HK level could answer questions about process indicators such as number of products sold, numbers of people reached through outreach sessions, and numbers of HKs recruited and trained. The more significant impact indicators around improved access and use can only be answered through formal evaluations or surveys. These can be very costly, and it is not clear whether MBH has reached sufficient scale to produce measurable impact. Nonetheless, answers to these questions are extremely important, both to guide program actions and to attract potential partners and donors.

4. RECOMMENDATIONS

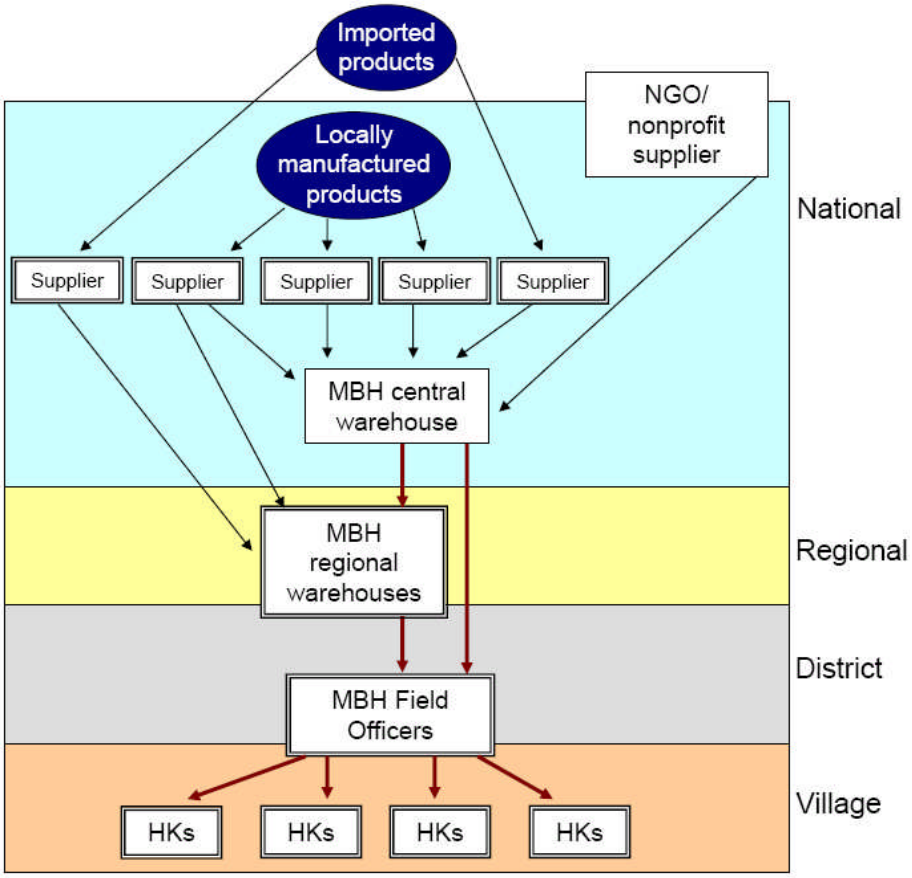
4.1 CONSOLIDATE PROCUREMENT AND CONTRACT OUT DISTRIBUTION

A critical component of the franchisor package depends on MBH's ability to procure and distribute the core and door opener products in a timely fashion at favorable prices. This is no small challenge given the fact that MBH's operating capital is limited, that the required products are not easily found with one supplier and that even when pooled, the demand from the HKs is currently very small. A review of purchases from January through August 2008 shows total stock purchases of 21,828 Ghana cedis (about US$19,000) spread over 18 different suppliers. The highest value with any single supplier is 5,452 Ghana Cedis (about US$4,700, with West Point Chemists) and the lowest amount is 45 Ghana Cedis (about US$40, with Medichem Pharmaceuticals). This level of purchasing does not give MBH much leverage with potential suppliers. MBH is also playing the role of wholesaler/distributor, by maintaining a warehouse to store the products and vehicles and staff to distribute them all the way to the HKs.

Figure 1 illustrates the procurement and distribution process that MBH currently follows and plans to follow as the program scales up. The red arrows in the figure indicate the steps in the supply chain where MBH carries out the distribution. Currently the program maintains one central warehouse in Accra, and as MBH scales up into all regions in Ghana it plans to decentralize distribution as much as possible and have regional warehouses. Some products may be delivered directly to the regional warehouses, while others may pass through the central warehouse. MBH also obtains some of the core products directly from NGO or nonprofit suppliers who socially market or subsidize products, providing a significant market advantage that MBH could pass on to the HKs while still charging its normal margin. As the program expands, MBH will recruit field officers, who will be locally based and responsible for product delivery and supervision of the HKs in different regions and districts.

There are a few points that are worth noting in this figure. First, as mentioned above, is the fact that MBH procures from several different suppliers, creating a logistical burden and diluting potentially greater volume discounts. Second, is MBH's intensive role in distribution, all the way from the national level to the village level. This implies not only high operational costs for storage and transport, but also that MBH carries the title and therefore the risk of transporting the products through most of the distribution chain (throughout the red arrows).

FIGURE 1: CURRENT AND PLANNED PROCUREMENT AND DISTRIBUTION PROCESS FOR MBH

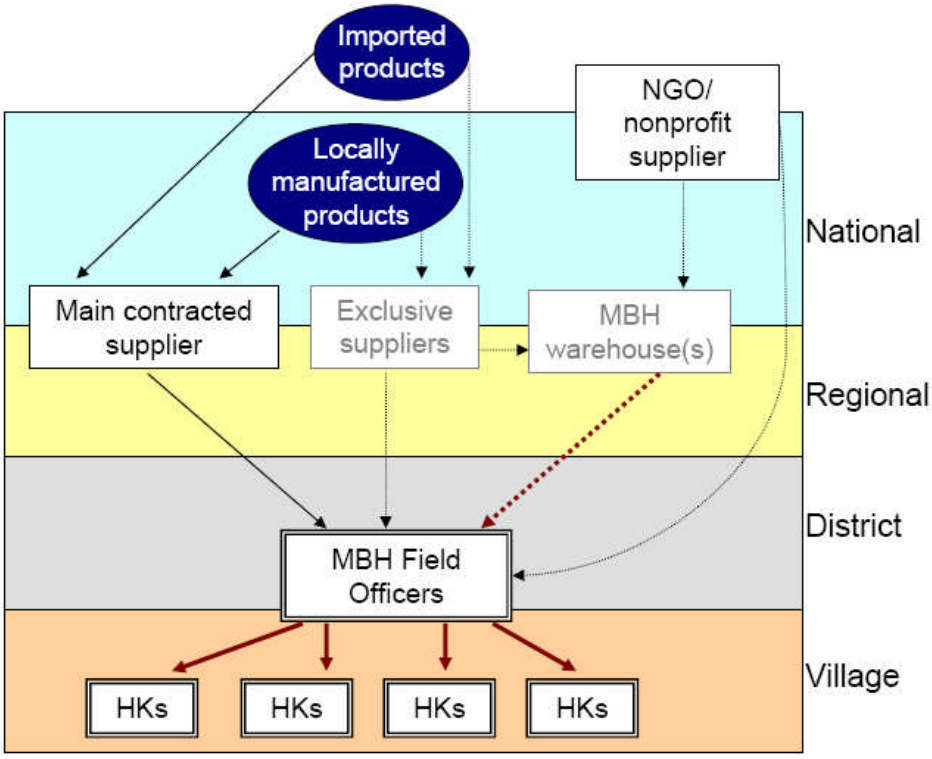


PSP-*One*'s first recommendation is that MBH should actively seek ways to reduce the number of suppliers both to consolidate their purchasing power, but also to reduce the administrative burden over sourcing from so many different suppliers for so many different products. Ideally, this could be done through a competitive tender in which MBH puts out the list of products to be procured over the coming year, sets expected and minimum volumes and asks bidders to quote prices for the entire range of products. This will allow MBH to assess price advantages not just product by product, but for the entire range.

The second recommendation is to include the distribution role in this tender, by requiring bidders to make products available for pickup further down the distribution chain at the district/village level to the field officers. This would greatly reduce MBH's transport and storage costs, while still allowing MBH to fulfill its core function as franchisor of delivering products along with training and supervision directly to the HKs. At least one distributor contacted by PSP-*One*, Vicdoris, expressed interest in such an arrangement, provided that the volumes and value are sufficient. Vicdoris also has significant national coverage with wholesale outlets in each of the 10 regions and sales staff who deliver to thousands of retail outlets across the country, getting pretty close to the village level. As MBH scales up, it will probably reach high enough volumes to attract the interest of a commercial supplier/distributor such as

Vicdoris. Figure 2 illustrates how the product procurement and distribution would work if MBH follows these recommendations.

FIGURE 2: PROPOSED PROCUREMENT AND DISTRIBUTION PROCESS FOR MBH SCALE-UP



In this illustration, the number of suppliers is greatly reduced to one main contracted supplier and the NGO/nonprofit supplier. The only reasons for using additional suppliers, including NGO/nonprofit, would be if specific suppliers have exclusive import or manufacture rights to a desired core health product, or if MBH's status as an NGO confers a comparative advantage in the market (e.g., the CFW Shops network in Kenya is only able to offer a significant value proposition to its franchisees because it is able to source quality imported products from MEDS, a non-profit drug importer that only sells to other non-profits). If using additional suppliers, MBH may still need to have one or more warehouses if the suppliers cannot deliver the products directly to the MBH field officers (all of the possible distributions routes from additional suppliers are represented in gray and dotted lines in Figure 2). However, even in this case, the warehouses or storage space needed would be significantly smaller than in the current scenario in Figure 1.

Another striking difference in the two figures is that in Figure 2, MBH's distribution role (red arrows) is limited to only the last mile, greatly diminishing the burden, costs, and risks of storage and transportation. MBH must remember that it is operating in the market as a wholesaler and should not assume that it will outperform commercial wholesalers/distributors. By seeking an alliance with the strongest wholesaler/distributor through a tender, MBH can use the commercial sector's efficiency to its advantage to carry out the steps in the supply chain that this sector does best, leaving MBH to focus its resources on the last mile.

It should be noted that this is a medium-term recommendation. The current state of the franchise is not sufficient to attract much interest from larger distributors and, even from MBH's perspective, as long as most of the HK clusters are within range of their Accra-based team, there are not great benefits to be had by entering into such a partnership. However, when the expansion reaches a stage where the distribution costs of conducting resupply from Accra become significant, then MBH should explore the possibilities of such a partnership. Obviously MBH will have to give up some part of the margin it is earning to the distributor, so the key indicator for making this change is when the savings on distribution costs exceed the loss on revenues from product sales.

4.2 IMPOSE STRONGER CONTROLS ON CREDIT

As noted above, the franchise scheme depends on minimizing bad debt and maintaining liquidity. As such it is imperative that MBH strongly discourage HKs from providing products on credit to their customers, and MBH will have to take a stronger position on not allowing HKs' credit levels to exceed certain limits. Specific training modules should be developed to address this issue head on and they should be emphasized during recruitment, training, and supervision. It is not sufficient to rely on knowing where the person lives and being able to conduct credit recovery. When debt reaches the stage of home visits for recovery, it is already a significant loss for the franchise because the cost of recovery efforts will always exceed the funds recovered. More likely than not, most of the outstanding credit will be for products already sold and consumed, so even taking back products is not likely to compensate for the loss. Moreover, it is not likely to help MBH's or FFH's public image if it is seen conducting forceful repossession in the homes of rural women.

The consequence of imposing tighter controls on credit is likely to be a higher attrition rate among HKs or more difficult recruiting efforts. These are significant drawbacks since it will slow down the scale-up process and make it harder to achieve the needed economies of scale, but on balance, it is better to suffer these drawbacks and anticipate them in the plan, than to suffer a decapitalization of the product purchasing funds through bad debt expenses.

4.3 CONSIDER DIFFERENT STAFF RESPONSIBILITIES, AND GREATER INTEGRATION OF TRAINING WITH SUPERVISION

Currently, MBH has separated the recruiting and training function from the monitoring and supervision activity. While this allows for greater specialization for the trainer, it does create some potential risks. There is some loss of continuity when HKs transition from the MBH staff person who recruited and trained them to the ones that monitor and supervise. Personal relationships are important to the franchise and this loss of continuity could hurt network loyalty. More importantly, recruiters should have a greater stake in the creditworthiness and the success of the HKs by having to bear some of the management burden for HKs who perform poorly or who do not repay their debts.

PSP-*One* would recommend two-person teams for each area with a HK cluster. The first member of the team would be someone trained and specializing in health promotion, selling techniques, and health information. The second person would be in charge of record keeping, stock movements, credit and sales revenue reporting, etc. The second person would also play a role in training the HKs in basic business practices needed for success. These teams would both be involved in recruiting, training, and managing the HKs for a given area. They would conduct all the biweekly meetings with HKs to conduct resupply, refresher training, and recruitment efforts. Recruitment may become an ongoing activity in areas where it has proven difficult or where attrition has been higher than expected. The other

advantage of this approach would be to ensure that training for both health promotion and business practices is provided on an ongoing basis and in response to problems or issues that become apparent during the supervision. It is unrealistic to assume that after a short, but intensive orientation workshop the HKs will know all they need to do their jobs effectively. An initial training workshop is important, but even more important is the on-the-job training.

4.4 INCREASE SOCIAL INVESTMENTS FOR TEAM EXPANSION AND HEALTH PROMOTION

One of the challenges in pursuing a double bottom line is matching commercial approaches to commercial objectives and social approaches to social objectives. Problems emerge when social approaches are used for commercial objectives and the reverse. In the case of the HK network, running a sustainable product wholesale business has a core commercial objective that should be pursued with commercial approaches. Consumer education and promotion of health products is a social objective, so many more social approaches can be undertaken in pursuit of these objectives. In making this distinction, *PSP-One* recommends more active fundraising of donor support for specific health promotion activities that can help build the HK network and improve the quality of their health promotion to consumers. Product-specific education that addresses major health issues for the country should benefit from donor support and many sources of funding are available both in country and internationally for activities around malaria, family planning, HIV/AIDS, water and hygiene, nutrition, etc. Corporate support may also be an option for education related to the company's product.

Some donor funding could also be found to facilitate operations, provided that MBH can show improved access for consumers. As mentioned above, small investments in cell phones or bicycles to increase the number of consumers reached might attract support from a corporate sponsor, such as a cell phone company or manufacturers of products on the MBH basket. This support could be introduced on a pilot basis for an entire HK cluster or possibly offered on an incentives basis for HKs who have achieved a certain level of sales with no outstanding credit.

To attract new donor support for activities that are appropriately subsidized will take more effort than the small MBH team currently has. MBH or FFH may consider hiring a new person to take on some of these activities. Although FFH has a primary role in mentoring, supporting, and funding the franchise, it is clearly in both the interest of the franchise and FFH for MBH to fundraise for its social activities. That said, MBH should fundraise selectively. There is a risk in pursuing such a strategy that management may lose its focus on operating the franchise and get too caught up in writing proposals. MBH also needs to ensure that new funding opportunities are truly supportive of the franchise model and will not draw resources away from the core business.

4.5 KEEP MONITORING DATA COLLECTION SIMPLE AND CONSIDER AN EVALUATION

As MBH reassesses data collection at the HK level, the main guiding principle it should keep in mind is to keep it simple. MBH has learned from experience that although HKs are literate, their willingness to fill out a form every time they sell a core health product is understandably low. HKs may be reluctant to ask their customers for personal information and they probably see no benefits to the time and burden costs of filling out the forms. MBH already collects sales and inventory data that provide accurate numbers on products sold to the HKs. This is a more than acceptable proxy for sales to consumers,

used widely by social marketing programs. It is even enough to provide individual HKs some feedback on their performance, best- and worst-selling products, etc.

It seems that any additional information that MBH decides to collect should help answer some of the vital questions related to the program's impact, such as those listed in section 3.6. MBH should then ask itself if this information must be collected by the HKs. Getting the HKs to accurately and consistently complete forms, even if they are extremely simple, will always be a challenge. MBH should think creatively about alternatives, such as tasking the supervisors (or future field officers) with collecting some data directly from customers, or assigning high-performing HKs with this task as a "promotion" with some reward. MBH should also consider carrying out an evaluation to assess impact, such as a population-based survey, in the near future. PSP-*One* has already discussed this possibility with FFH and will be providing technical assistance on this front.

5. PERSONS CONTACTED

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