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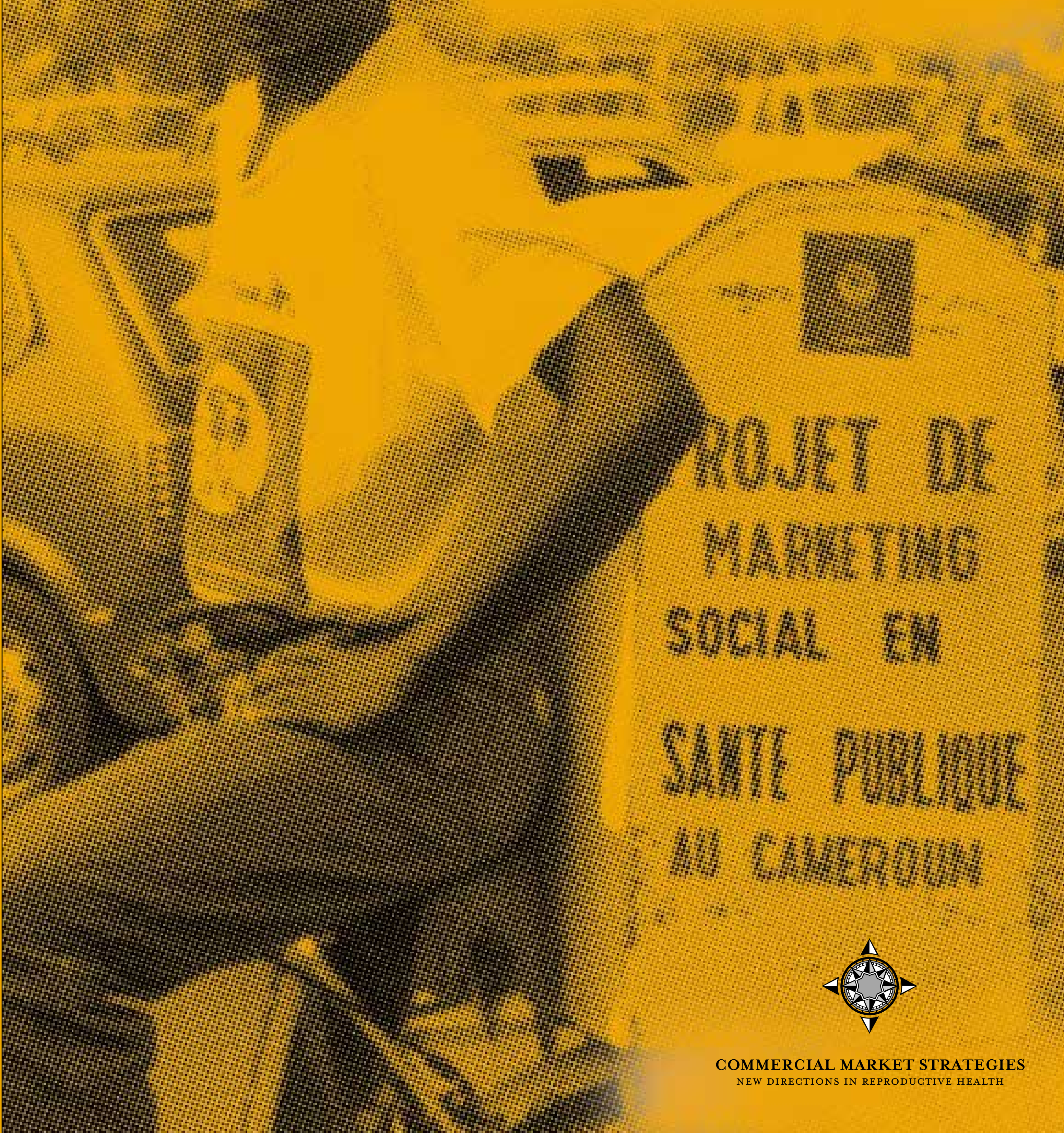
The Sustainability Challenge

Identifying Appropriate Financing Models for Social Marketing Programs

Françoise Armand
October 2003



COMMERCIAL MARKET STRATEGIES
NEW DIRECTIONS IN REPRODUCTIVE HEALTH

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COMMERCIAL MARKET STRATEGIES

Commercial Market Strategies (CMS) is the flagship private-sector project of USAID's Office of Population and Reproductive Health. The CMS project, in partnership with the private sector, works to improve health by increasing the use of quality family planning and other health products and services.

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ABSTRACT

Social marketing has proven to be a cost-effective approach to increasing the availability and use of health products. The ability to recover costs through sales revenue and leverage commercial efficiencies also provides social marketing programs with opportunities for increased financial sustainability. The challenge of achieving sustainability in various contexts, however, has led to different viewpoints regarding some financing strategies, particularly the pursuit of self-sufficiency. This paper analyzes the conditions and trade-offs involved in common approaches to financial sustainability and provides a framework for identifying context-appropriate strategies. Among the factors most likely to affect the success of these approaches are gross national income per capita (as a proxy for ability to pay, donor presence, and commercial activity) and the market potential for social marketing products. Social marketing programs, however, should adapt their strategies over time because demand for products and willingness to pay are likely to evolve, creating opportunities for increased cost recovery and greater program efficiency.

KEY WORDS

Social marketing, sustainability, contraceptives, family planning, Commercial Market Strategies, private sector, commercial sector.

RECOMMENDED CITATION

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SUMMARY

Product-based social marketing programs use commercial marketing techniques to increase the availability and use of health products, as well as educational and behavior-change strategies that facilitate informed choice. Research studies provide convincing evidence of the cost-effectiveness of these interventions, particularly in the area of family planning. Cost recovery through product sales — and the leveraging of commercial efficiencies — also provides opportunities for increased financial sustainability. The challenge of achieving sustainability in various contexts, however, has led to different viewpoints regarding specific financing strategies, particularly the pursuit of self-sufficiency. This paper analyzes the conditions and trade-offs involved in common approaches to financial sustainability and provides a framework for identifying context-appropriate strategies.

COST RECOVERY

Cost recovery can be achieved by charging prices that cover variable costs and a percentage of fixed costs. Over time, increases in sales volume lead to lower costs per unit. Developing a portfolio of products and services that contribute to fixed costs also improves cost recovery, which is why social marketing programs often develop into multiple product distribution platforms that are able to achieve substantial economies of scale. Cost recovery also can be improved by marketing existing commercial brands or turning over brands to commercial distributors once they reached self-sufficiency.

Cost recovery is subject to consumers' ability and willingness to pay, as well as the size of the market for social marketing products. As a result, it may not be a realistic or desirable goal in a context where users' ability to pay is low. Replacing donated commodities with commercially procured ones increases cost recovery for donors, but is likely to affect the financial sustainability of some social marketing organizations (SMOs) that depend on revenue from the sales of these commodities.

INCOME-GENERATING ACTIVITIES

Social marketing programs often have to be supported with other income-generating activities, such as cross-subsidization and donor diversification. In cross-subsidization, revenue from sales of higher-priced products and services supports lower-priced ones. Same-class cross-subsidy products appear to have worked well in countries with a relatively high gross national income (GNI) per capita. Services are an important source of cross-subsidy income for many clinic-based family planning associations (FPAs). These associations also may be more likely to become financially sustainable without sacrificing their social mission if public-sector financing or national health insurance is available. Because high margins and significant sales volume are necessary to generate income, a cross-subsidy scheme may not succeed in a small, low-income country. Developing profitable products and services may call for consumer research, as well as investments in procurement, packaging, and advertising. Cross-subsidy activities are most successful when they are related to the core competency of an SMO, though they do not always generate substantial revenue for the organization. In some cases, these activities initially have required increased donor support.

Donor diversification is an important strategy for minimizing the financial vulnerability of SMOs with limited cost-recovery and income-generating opportunities. A strategy based on donor diversification is most likely to succeed in a low-income country with substantial donor presence. An SMO seeking to attract donor support will be responsive to requests for needed health products and services that do not necessarily increase cost recovery and economies of scale. Donor diversification alone is not realistic in middle-income countries or those facing reduced funding levels in the future. Recent trends, however, suggest that targeted fundraising can help even self-sufficient non-governmental organizations (NGOs) sustain needed programs that otherwise would threaten their financial sustainability. Donor-dependent programs may have a difficult time maximizing cost recovery because they are more likely to be evaluated on overall health impact than on sales. Pursuing activities that attract substantial donor support but do not generate any revenue for SMOs may significantly alter their potential for financial sustainability.

IMPROVING PROGRAM EFFICIENCY

Program efficiency calls for optimizing the use of available resources. Increased efficiency can lead to higher cost recovery and improved program outcomes, though these goals may imply different programmatic choices. Balancing supply- and demand-side activities is particularly important to maximizing cost recovery. Interventions that target priority groups, as opposed to mainstream populations, use donor funds more efficiently and help social marketing programs complement, rather than compete with, commercial suppliers.

The supply side of social marketing is more likely to be sustainable when it responds to actual demand, rather than unmet need. While similar to commercial marketing, this approach does not preclude the development of demand-side activities or special outreach programs, though they are likely to require donor support. Experience suggests that the supply side of social marketing can be made more cost-effective and, in some cases, self-sufficient, even as its demand-side component grows increasingly donor-dependent.

Improving program efficiency is possible and desirable in every context, but it requires research and technical capacity. Increasing program efficiency may emphasize inherent differences between commercial and social marketing: When program goals call for serving those who need it the most as opposed to mainstream, predisposed users, cost recovery may become incompatible with health impact.

EXIT STRATEGIES

Exit strategies allow for social marketing brands to be transferred to commercial partners when they become financially self-sufficient and for donor funding to be phased out. Programs based on the manufacturer's model typically are designed with a built-in phase-out strategy. A few brands developed with donated commodities that reached self-sufficiency have been taken over by commercial distributors. Exit strategies require the development of highly profitable social marketing brands. This approach has been successful in middle-income countries with substantial market potential for social marketing products, but may not be appropriate when donor and government policies have the effect of reducing market potential for commercial-sector brands. Strategies that rely on the commitment of commercial partners to sustain social programs after a donor phase-out present some risks. Corporate decisions made after graduation from donor support may decrease access to products for those who need them the most, such as low-income and underserved groups. In this case, the financial sustainability of the intervention may be negated by its lack of impact.

FRAMEWORK FOR FINANCIAL SUSTAINABILITY STRATEGIES

Market potential, ability to pay, commercial presence, and the availability of donor funding are key factors that influence the success of financial sustainability strategies. Market potential and gross national income (GNI) per capita — used as a proxy for the availability of donor funding, ability to pay, and commercial presence — are two variables that can be used to assess the appropriateness of financial sustainability strategies. Middle-income countries with high market potential offer a favorable context for full cost recovery, cross-subsidy activities, and exit strategies. Low-income countries with low market potential, on the other hand, call for donor diversification combined with program efficiency and economies of scale. Intermediate contexts may present opportunities for income-generating activities, some level of cost recovery, and donor support for demand-side and targeted activities. Social marketing programs should adapt their strategies over time because demand for products and willingness to pay are likely to evolve, creating new opportunities for cost recovery and greater program efficiency.

1 Introduction

INTRODUCTION

Social marketing is the use of commercial marketing techniques to achieve a social objective. In the developing world, social marketing programs traditionally have focused on increasing the availability and use of health products, such as contraceptives or insecticide-treated nets. This goal is achieved through a classic commercial marketing approach, which reduces the barriers and increases the perceived benefits associated with the use of a product. Social marketing also is based on the use of the marketing mix (also called the four Ps), which includes four components that contribute to the sale of a product: the *product* itself, its *price*, the *place* where it is sold, and the strategy used to *promote* it.

Social marketing includes activities that roughly can be categorized as related to either supply or demand: Supply-related activities include essentially commercial activities, such as the procurement, packaging, distribution, and advertising of branded products. Demand-related activities refer to educational and behavior-change interventions that facilitate informed choice. In this paper, demand-side activities are considered specific to social marketing because they aim to increase overall product use, particularly by people with an unmet need, rather than promote a specific brand.

COST-EFFECTIVENESS AND FINANCIAL SUSTAINABILITY

Research studies provide convincing evidence of the cost-effectiveness of product-based social marketing programs relative to other donor-funded interventions (Chapman and Astatke, 2003). Contraceptive social marketing in particular has been shown to achieve lower costs per couple year of protection (CYP)[1] than public-sector and community-based distribution programs (Lewis, 1987; Chen, 1981; Barberis and Harvey, 1997). This comparative advantage lies in the ability to scale up product delivery quickly by using mass marketing approaches and the fact that products are sold, which contributes to program cost recovery. Most social marketing programs leverage private distribution networks, and some have been developed in partnership with commercial-sector suppliers. As a result, there is a perception in the public health field that social marketing programs are capable of attaining a high level of financial sustainability.

Financially sustainable social marketing programs are a cost-effective alternative to donor-dependent ones, as long as they deliver the expected health impact. They also are less likely to be affected by funding crises. In the case of contraceptive supply, for example, worldwide needs are expected to outgrow donor resources considerably, which could leave millions of couples without access to family planning products (Ross and Bulatao, 2001). Financial sustainability is generally recognized as an important issue in social marketing, yet opinions vary with respect to specific strategies. Some social marketing organizations (SMOs) advocate pursuing strategies of self-sufficiency through cost-recovery and income-generating activities (International Planned Parenthood Federation, IPPF, 1991), or the sharing of program costs and management with commercial partners (Futures Group, 1990, 1993). Others have argued that self-sufficiency is not a realistic goal because subsidies are likely to be needed as long as poverty exists (Harvey, 1991). A more recent approach advocates maximizing cost recovery, as long as it does not compromise a program's health mission, and considering donor diversification as a sustainable funding option (Stallworthy, 1998).

THE NEED FOR CONTEXT-SPECIFIC APPROACHES

Much of the dissent over financial sustainability can be attributed to the multiplicity of contexts and program designs in the social marketing field. A challenge for practitioners and donors is to identify appropriate financial sustainability strategies for a given context, consistent with a program's desired health outcomes. This paper reviews four strategies: achieving full cost recovery, diversifying income sources, improving program efficiency, and graduating programs from donor funding. Next, the conditions that make them possible and their potential trade-offs are analyzed, drawing from field experience and the literature. This paper then provides a framework for context-specific strategies and identifies factors that signal opportunities for increasing financial sustainability over time.

1 CYP: A measure representing one year of contraceptive protection provided by a method. CYP is calculated by taking the number of units sold of a particular method and dividing that number by the number of units needed to protect a couple for one year.

2 Program Cost Recovery

PROGRAM COST RECOVERY

Social marketing programs achieve cost recovery by generating enough revenue to cover program expenses, including fixed and variable costs. Fixed costs, which do not vary with output, typically are related to program management, distribution infrastructure, and overhead. Variable costs include procurement, packaging, and other costs that tend to increase proportionally with sales output. Most social marketing programs are able to achieve some level of cost recovery, even when they sell products at very low prices, because those prices typically cover variable costs. Programs that receive donated contraceptives, for example, have low procurement costs, which allow them to use the bulk of sales revenue to cover fixed expenses.

The more users are willing to pay for social marketing products, the more likely a program is to achieve cost recovery. The potential for cost recovery may improve as a result of promotional activities that build value for social marketing products and increase people's willingness to pay for these products. In some countries, social marketing brands have been outsold by higher-priced commercial brands over time (Kincaid et al., 1997), indicating that people often trade up when their perceived value of health products improves.

ECONOMIES OF SCALE

As long as a program charges prices that cover variable costs and a percentage of fixed costs, increases in volume lead to gradual cost recovery until the program breaks even or becomes profitable. Even when this goal is not met, increases in sales result in lower costs per unit (in the case of contraceptives, lower cost per CYP). Indeed, studies show that costs per unit sold tend to go down when social marketing programs mature because economies of scale take place over time (Stover, 1998). In a 1998 study (Stallworthy and Meekers, 1998), Population Services International (PSI) reported that 5 out of the 6 lowest-cost programs served 110 million people or more, while the same proportion of high-cost programs served populations of 7 million people or less. Unit costs also fall as programs mature: The same study showed that 11 out of the 12 most-cost-effective programs were at least six years old.

Another way to achieve cost recovery is to develop a portfolio of products and services that can contribute to fixed costs. For example, adding a new product to a social marketing program that has unused warehousing or transportation capacity can increase revenue without increasing distribution-related costs. Expansion strategies for the purpose of increased financial sustainability are likely to work best when all products and activities have similar needs in terms of distribution and support staff. This is why social marketing programs often develop into distribution "platforms" that are able to build economies of scale with large product portfolios.

USING COMMERCIALLY SUSTAINABLE BRANDS

Significant improvements in cost recovery can be achieved by using products already on the market. Brands marketed through this approach are not subsidized, and their selling price typically covers variable costs (such as manufacturing and packaging) as well as a portion of fixed costs. As a result, they are considered commercially sustainable. Such brands may be the only products sold through the project, or they may be sold alongside subsidized brands in an effort to segment the market[2] according to people's ability to pay.

One approach to the social marketing of commercially sustainable brands is known as the manufacturer's model. This approach involves partnering with manufacturers or distributors willing to market products at affordable prices. These partners contribute their brands, marketing know-how, distribution capacity, and ability to spread fixed costs over large product portfolios. Donors contribute funds for demand-side activities, such as umbrella[3] or generic campaigns that are expected to increase sales and compensate for any reduction in the manufacturer's profit margin. This model was developed and implemented by the USAID-funded Social Marketing for Change (SOMARC) project and subsequently adopted by the Commercial

2 Market segmentation is a technique used by marketers in the reproductive health field to divide consumers into smaller subgroups that share relevant characteristics. Socioeconomic segmentation has been used to identify likely customers for the public and private sectors (Berg, 2000) and specific roles for social marketing programs (Winfrey et al., 2003). Segmentation also can help develop brands with features and prices that attract previously untapped consumers or help shift high-income users away from subsidized products.

3 An umbrella campaign is designed to promote a group of brands under a single logo. This approach is used often in countries where legislation prohibits advertising for individual commercial brands.

Market Strategies (CMS) and NetMark projects. It has now been implemented in more than 20 countries for products ranging from contraceptives to oral rehydration salts and mosquito nets, and has proven successful in increasing the demand for commercial brands (Kincaid et al., 1997).

Sustainable brands also have been marketed for decades by family planning associations (FPAs),[4] particularly in Latin America. Contracting with these associations gives manufacturers access to clinic networks and outreach programs, in addition to traditional pharmaceutical outlets. Through such partnerships, FPAs access low-cost products that can increase program income and provide users with more options. Examples include the longstanding partnership between PROFAMILIA/Colombia and SCHERING, a contraceptive manufacturer, and a recent joint venture between a German condom maker and two FPAs located in Central America.

SMOs with extensive field operations in less-developed countries also have been known to partner with commercial manufacturers. Such partnerships have the potential to increase the availability of commercial brands, as well as improve market segmentation, by offering consumers a wider range of products. For example:

- In Zimbabwe, Cameroon, India, and Pakistan, non-governmental organizations (NGOs) are acting as distribution agents for contraceptive manufacturers seeking increased market penetration.
- PSI/Tanzania has been providing marketing services to local mosquito net manufacturers, including the bundling of commercial insecticide-treated net (ITN) brands with the project's brand of retreatment kit.
- A supplier of emergency contraception (EC) pills is partnering with two FPAs that will coordinate the distribution of EC pills in the public, private, and NGO sectors in five countries.

CONDITIONS THAT FAVOR COST RECOVERY

Social marketing programs with high levels of cost recovery tend to be found in middle-income countries[5] with considerable market potential for health products, such as Colombia, Brazil, China, and Malaysia (IPPF, 1991; Harvey, 2002). In contrast, programs implemented in low-income countries are more likely to sell below costs and use donated commodities, which affects cost recovery. Low demand for social marketing products also has a compounding effect on cost recovery because it limits opportunities for economies of sale. Indeed, the lowest levels of cost recovery tend to be found in countries with combined low demand and low per capita income, such as Madagascar and Rwanda (PSI, 2003).

Marketing commercially sustainable brands requires that prices cover procurement and marketing costs, as well as a portion of fixed costs. These prices, however, must remain affordable to target consumers for the program to have an impact. Furthermore, markets must offer opportunities for profits and volume growth in order to be appealing to commercial suppliers. A pharmaceutical company that agreed to partner with CMS in Morocco was unwilling to enter a similar agreement in Senegal. One obstacle was the manufacturer's inability to provide the product (in this case, a brand of oral contraceptive pills) at a price that would be affordable to women targeted by the project. Another was the absence of substantial consumer demand for this type of product. This combination of factors called for a program based on subsidized commodities and sustained demand-side activities, at least until Senegal becomes a more attractive market for commercial suppliers.

For some commercial partnerships to succeed, SMOs must have a unique competitive advantage, such as Social Marketing Pakistan's professionally trained sales force, or PSI's rural distribution network in India. There also must be motivated commercial suppliers to act as partners. Small- and medium-sized companies specializing in contraceptive products and women's health (such as HRA Pharma) represent a new breed of potential partners for SMOs. These companies may be more likely than risk-averse

4 FPAs are current or former affiliates of the IPPF. Most are clinic-based and focus on supplying family planning products and services to mainstream and low-income populations.

5 A middle-income country has an annual gross national income (GNI) per capita that is more than $735, but less than $9,076 (World Bank. 2003. Data and Statistics/Country Classification: *www.worldbank.org*).

multinational corporations to engage in long-term partnerships and forsake profits for volume growth (Harti, 2003).

TRADE-OFFS OF COST-RECOVERY STRATEGIES

Cost-recovery strategies may affect program outcomes, particularly in low-income countries. Although there isn't much consensus on the impact of prices on demand for contraceptives, it is likely to be higher for low-income users (Ciszewski & Harvey, 1994; Jensen et al., 1994; Price, 2001). Keeping costs under control may require forsaking important activities that are key to reaching certain target groups, affecting both access and demand. In the case of the manufacturer's model, product availability may be insufficient to provide access to target users because commercial distribution networks are designed to be cost-effective. It may be more profitable indeed for a commercial supplier to limit product distribution to urban areas where a larger concentration of users can be found and transportation and detailing costs are lower.

Increasing cost recovery also may involve replacing donated commodities with commercially procured ones, which may affect program outcomes if users' ability to pay is low. When donations cease, prices often have to be increased. For example, the Sociedade Civil Bem Estar Familiar no Brasil (BEMFAM), a large clinic-based FPA in Brazil, kept the price of *Prosex* condoms at the low end of the market as long as commodities were donated, but repositioned the brand upward when the program shifted to commercial procurement (BEMFAM, 2002). In addition, donated commodities may play an important role in the financial sustainability of SMOs that rely on sales revenue to support programs.[6] For some organizations, such as DKT in the Philippines, donor support comes mostly in the form of commodities, and the sale of these products is the only source of income for the SMO. In this case, the loss of commodity donations would simply mean having to increase other types of donor support. As a result, there is a tension between the need for donors to phase out commodities donations over time and the reliance of SMOs on these programs for their own financial sustainability.

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6 Even when their value is accounted for in financial reports, donated commodities often improve cost-recovery ratios because the donors that supply commodities acquire them at very low prices.

3 Income Generation

INCOME GENERATION

The previous section highlighted the importance of market size in achieving economies of scale and cost recovery. Guidelines developed by IPPF recommend that in countries where family planning acceptance is low, FPAs should focus on resource development, rather than cost recovery from users (Ashford and Bouzidi, 1992). Even commercially sustainable brands do not always generate enough revenue to support investments in promotion and demand-side activities, as observed in Jamaica and Mexico (Ravenholt, 1998; Kincaid et al., 1997). As a result, social marketing programs in some contexts may have to be supported with other income-generating activities, such as cross-subsidization and donor diversification.

CROSS-SUBSIDY PROGRAMS

In cross-subsidization, revenue from higher-priced products and services supports lower-priced ones. FPAs in Latin America pioneered the development of cross-subsidy programs in the 1980s, following government budget cuts and reductions in donor funding. For example, PROFAM in Mexico rebounded from drastic reductions in funding in part by selling a broad line of medical equipment and consumer goods. Same-class cross-subsidy products appear to have worked well in countries with a relatively high GDP per capita (according to DKT International, more than $4,000) where some consumer groups could afford to pay higher prices. DKT has experimented successfully with cross-subsidy brands of condoms, pills, and injectables in Brazil, China, and the Philippines and has a fully sustainable condom program in Malaysia. In addition to their middle-income status, these countries offer good opportunities for cross-subsidy income because they have very large populations.

Services are another source of cross-subsidy income for many SMOs, though they typically support the organization as a whole, not just its social marketing program. Both the Federation of Private Health and Community Development Associations (FEMAP) in Mexico and the Asociación Demográfica Salvadoreña (ADS) in El Salvador generate revenue from ancillary medical services, laboratory diagnostics, and pharmacy franchises (see ADS sidebar). A few reputed FPAs, such as PROFAMILIA/Colombia, BEMFAM (Brazil), and FEMAP have earned significant income by providing research, training, and consulting services to commercial and/or non-profit organizations. Service agreements with public-sector institutions also have allowed some SMOs to increase their revenue in many countries. These agreements typically include a range of services beyond providing contraceptives, which make them particularly appropriate for clinic-based organizations. Health sector reform in such countries as Nicaragua and Colombia also is providing opportunities for FPAs to sustain outreach programs and services to low-income populations. In the mid-1990s, PROFAMILIA/Colombia began to shift toward higher-income users, but service agreements with the public sector enabled this FPA to refocus on lower-income population needs (Ojeda et al., 2002). This suggests that NGOs are more likely to become financially sustainable without sacrificing their social mission if public-sector financing or national health insurance is available.

CONDITIONS THAT FAVOR CROSS-SUBSIDIZATION

Because high margins and significant sales volume are necessary to generate income, a cross-subsidy scheme may not succeed in a small, low-income country. Developing profitable products and services also requires good marketing skills. For example, just because some people have more money to spend does not mean they will automatically buy a higher-priced brand. Research has shown that middle- and high-income users often use free or subsidized products even when they can afford commercial brands (Sine, 2002). Therefore, this strategy requires building value for higher-priced brands through innovative product features, competitive positioning, and sustained promotion. It also may require sophisticated consumer research, such as psychographic studies,[7] and investments in procurement, packaging, and advertising.

Stiff competition is likely to be present in any profitable endeavor, therefore cross-subsidy activities are most successful when they are related to the core competency of an SMO. For example, some organizations are technically adept at developing high-end condom brands or have extensive distribu-

7 This type of research analyzes people's beliefs, opinions, and interests in order to create consumer profiles that are used to develop products and services for specific audiences.

Asociación Demográfica Salvadoreña: Cross-Subsidization Works!

This 40-year-old IPPF affiliate has made steady progress toward financial independence since the 1990s, achieving a rate of 85 percent self-sufficiency in 2002. The programs managed by the Asociación Demográfica Salvadoreña (ADS) are a delicate balance of profitable and subsidized activities that meet the organization's combined objectives of self-sufficiency and sustained health impact. ADS's social marketing portfolio features seven condom brands, two oral contraceptives, an injectable, and a lubricant. Its nationwide distribution system and award-winning mass media campaigns have garnered ADS a large share of the contraceptive market. Other activities include advocacy and youth programs and a project to integrate family planning and sexually transmitted infection prevention. Although cost recovery is typically very low, these activities lie at the heart of this FPA's social mission.

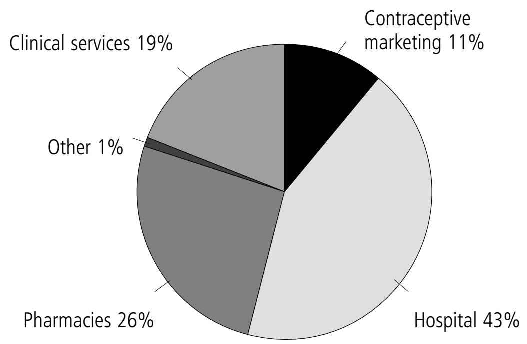
A strategy based on cross-subsidization

ADS also manages a range of commercially sustainable activities that help subsidize its social programs (see Figure 1). Though commodities for the lower-priced brands are still donated by USAID, the FPA reported a 161 percent self-sufficiency rate for its social marketing program in 2001. In 1994, ADS purchased a hospital with its own reserves and turned it into a profitable operation that accounted for 43 percent of net income in 2001. Since then, ADS has acquired a network of pharmacies and laboratories and increased profitable services, such as mammography and ultrasound.

A strong partnership network

ADS also has succeeded in the national health insurance and public sectors. The NGO has supplied birthing services for the Social Security Institute since 1997, and its hospital accounted for 14 percent of deliveries supported through the national health insurance system in 2000. ADS has established links with the private and public sectors, and referrals have been critical in maintaining high attendance levels at the hospital. Its key role in health care delivery, firm foothold in the private sector, and focus on needed social programs also help ensure cooperation and support from major stakeholders in El Salvador. ADS's main achievement may be its success in becoming indispensable to the health and well-being of the Salvadoran population.

Figure 1. Self-generated revenue sources in 2001 (Total: $6.3 million)



tion networks that allow them to market commercial brands for a fee. Others generate income by using their research capability to provide demographic and market studies for other organizations. NGOs that succeed at income-generating activities have been found to share a market-based competitive approach, a distinctly entrepreneurial culture, and strong financial systems (Epstein, 1990; IPPF, 2000).

CROSS-SUBSIDIZATION TRADE-OFFS

Cross-subsidy activities are entrepreneurial by nature and do not come with any guarantees of success. Many SMOs have experimented with cross-subsidy brands that have not generated substantial income for the organization. GSMF International (formerly the Ghana Social Marketing Foundation), which has a social marketing operating budget of about $500,000, took a $76,000 loan to develop a high-end condom brand and had generated $29,700 in net income two years later (Summa Foundation, 2003). This experience shows that commercially viable brands can be developed to segment a market and reduce national reliance on subsidized commodities. It also highlights the relatively minor contribution that cross-subsidy brands often make to the overall sustainability of a large SMO.

In some cases, cross-subsidy activities may require increased donor support: Several FPAs and some PSI programs received USAID funding through the Transition and Sustainability Matching Grant projects to assess and develop income-generating activities. In addition, many cross-subsidy brands still rely on donated commodities. For example, several FPAs in Central America use donated condoms to market brands at different prices (Ramirez, 2003).

DONOR DIVERSIFICATION

The flip side of a less-than-favorable socioeconomic and health context is that it may coincide with high donor presence. SMOs faced with limited cost-recovery or income-generating opportunities tend to use donor diversification as a strategy for minimizing their financial vulnerability. Each activity that increases donor support contributes to covering the organization's fixed costs and may help subsidize underfunded activities. SMOs that attract sustained

PSI/India: Basket of Products Can Be Attractive to Donors

PSI/India has become one of the largest SMOs in the world. Its product portfolio includes 14 different brands, including oral and injectable contraceptives, oral rehydration salts, nutritional supplements, a safe delivery kit (pictured here), and a home-based water-treatment product. Since 1992, the organization also has been involved in the National AIDS Control Program through a voluntary counseling program and outreach activities targeting high-risk groups.

In 1997, PSI/India received a USAID grant to support activities designed to improve its organizational sustainability. This initiative took place as the organization was recovering from a turbulent period marked by high management turnover, product stock-outs, and sporadic donor funding. PSI/India identified programmatic and institutional capacity, rather than financial self-reliance, as priority areas. Defining sustainability as "the ability to make significant contributions to the health priorities of low-income people, for as long as necessary," PSI/India aimed for delivering cost-efficient health impact with the support of a diversified donor base.

Between 1998 and 2003, PSI/India implemented a series of programmatic and organizational changes in line with this updated mission, including investments in research capacity and staff development, and a new programmatic focus on rural populations. PSI/India also strengthened its financial viability by diversifying its donor base, increasing sales revenues, and improving financial systems. Today, PSI/India programs reflect improvements in both growth and focus. Product sales have increased substantially (with sales to rural areas accounting for 30 percent of the total), and new products have been introduced to address priority maternal and child health needs. Finally, PSI/India set up a rural network of retail outlets, health providers, and community-based workers to promote and sell its own branded products (under the *Saadhan* umbrella) and those of commercial suppliers looking for increased rural access.

These achievements have attracted the interest of a variety of new donors. Between 1997 and 2002, PSI/India secured grants from more than six different bilateral, multilateral, and private donors. Seed money from PSI's Washington-based headquarters helped develop six new products, for which a need had been identified, that later attracted support from international donors. Finally, PSI/India increased its self-generated income, which covers roughly 25 percent of annual operating expenses, by distributing a commercial brand (*Kama Sutra*) in rural areas.

PSI/India has demonstrated that the ability to address a variety of unmet health needs with cost-effective programs is highly valuable to potential donors. The organization achieved efficiency by building a large portfolio of public-sector, social marketing, and commercial brands with similar distribution and marketing requirements. This ability to bundle products to reach under-served populations, together with improved institutional capacity, has helped PSI/India build a strong competitive advantage that ultimately contributes to its financial sustainability.

and diversified donor funds typically have developed large product portfolios and extensive distribution capability. For example, GSMF manages 11 social marketing products; PSI programs in India, Togo, and Zambia manage 12 or more products and services. Large, well-established SMOs also are more attractive implementation partners than fledgling organizations, which further improves their fundraising prospects, as long as donors are around.

CONDITIONS THAT FAVOR DONOR DIVERSIFICATION

A strategy of donor diversification is most likely to succeed in a country with substantial donor presence, such as India, Haiti, or Nigeria (see PSI/India sidebar). It also may imply a significant shift from market- to donor-driven growth. An SMO seeking to attract donor support will be responsive to requests for needed health products and services, whether or not they contribute to cost recovery (an SMO aiming for the highest return on investment will be drawn instead to activities for which there is high demand at sustainable prices). The CMS project in Uganda, for example, is a program driven by health needs and donor support, rather than cost recovery or economies of scale. This project built a portfolio of seven programs over five years, including product-based social marketing, behavior-change communications (BCC) for HIV/AIDS prevention, promotional campaigns for voluntary counseling and testing (VCT) and the prevention of mother-to-child transmission (PMTCT) services, and a voucher program for ITNs. While these programs generated few economies of scale and required specific funding for research, outreach programs, and technical staff, they were justified from a public health perspective. A strategy based on cost control and economies of scale probably would have been entirely different, but it might not have responded to Uganda's health needs as well as the CMS program has.

Donor dependency alone is not realistic in middle-income countries or those facing reduced donor support in the future. Recent trends, however, suggest that social marketing programs in these countries can attract special funding for interventions targeting vulnerable groups. FPAs in Ecuador, El Salvador, and Honduras have received funding from USAID to develop outreach programs for rural populations and adolescents, and PROFAMILIA/Colombia still relies on donor support for many of its outreach programs (PROFAMILIA, 2001). Targeted fundraising can therefore help even self-sufficient NGOs sustain needed programs that otherwise would threaten their financial sustainability.

DONOR DIVERSIFICATION TRADE-OFFS

Donor-dependent programs may have a difficult time increasing cost recovery because they are more likely to be evaluated on overall health impact than on sales. Pursuing activities that attract substantial donor support but do not generate any revenue for SMOs may therefore reduce their potential for financial sustainability. For example, social marketing programs involved in HIV/AIDS prevention increasingly are expected to promote abstinence and partner reduction. These behaviors have either no impact or a negative impact on product sales, though they may have a significant overall health impact. The questioning of sales-based performance indicators for social marketing programs (Shelton, 1991; Fort, 1996) also has reduced the tendency to evaluate them on their ability to mass-market contraceptives. As a result, income-generating, supply-side activities are no longer central to a growing number of social marketing programs.

4 Improving Program Efficiency

IMPROVING PROGRAM EFFICIENCY

Program efficiency refers to the optimization of the use of available resources and can be likened to maximizing return on investment. Increasing efficiency is consistent with a strategy of cost recovery because it keeps cost under control while maximizing income. This approach is also attractive to donors, who may consider the ability to demonstrate effectiveness and efficiency more important than cost recovery in assuring the long-term viability of social marketing programs (Price, n.d.).

OPTIMIZING THE MARKETING MIX

Taking the marketing mix as a representation of program activities, every element of the mix can be seen as competing against the others for resources. For example, a program manager may have to decide whether lowering the price of a product is more likely to increase its use than developing a promotional campaign that builds value for that product. Similarly, a choice can be made between increasing the availability of condoms in non-traditional outlets (such as bars) and convincing people to think ahead and stock up at more conventional locations.

Pricing is the most controversial element of the social marketing mix. A study of contraceptive pricing suggested that social marketers invest in communication, rather than subsidized products, because people typically cite reasons other than price for not using contraceptives (Matheny, 2003). Others have warned that unsubsidized products may become prohibitive to low-income clients and would negatively affect program outcomes (Harvey, 1993). Some researchers, however, note that the price elasticity of demand varies with the perceived value of a particular method and available alternatives (Lande and Geller, 1991), suggesting that pricing should be based not only on ability to pay, but also on overall demand for a product, as well as other available methods and supply sources.

As supply and demand evolve, social marketing programs need to reexamine and adjust their initial strategy. Lack of understanding of the market can easily lead to overinvesting in a particular element of the mix. For example, when sales level off, the temptation is great to revamp and reposition a brand, often with the support of a new advertising campaign. But if there is no evidence that changing a brand's features or improving its image will bring on the next wave of users, investing in the product is not cost-efficient. Another aspect of the mix that may attract a disproportionate share of resources is distribution. Early contraceptive programs invested the bulk of program resources in sales forces, trucks, equipment, advertising, and giveaways to maximize product availability. Though these activities facilitate product use by improving access, they also have the effect of increasing supply, rather than stimulating demand. If a program is seeking to maximize cost recovery, streamlining rather than increasing supply may be a more effective sustainability strategy. If the program is expected to increase overall use, demand-side activities targeted at people with unmet need may be more appropriate.

Social marketing programs are increasingly targeting their efforts toward priority groups, as opposed to mainstream populations. The criteria used to select these groups typically include demographic, epidemiological, and socioeconomic data, as well as attitudes and behaviors. Targeted interventions are seen as a more efficient use of donor funds because they focus resources on people who need them the most (World Bank, 1997). Targeting also makes sense in more-developed markets where social marketing programs must complement, rather than compete with, commercial suppliers. Some SMOs have applied segmentation techniques to develop products that serve targeted strategies. For example, PSI markets condom brand extensions in Central America, Togo, and Romania that have succeeded in attracting new categories of users important to the project because of their high-risk status (Laing, 2003). This type of segmentation rarely improves cost recovery because narrowly targeted brands cannot achieve the sales volumes generated with base brands. It is, however, a cost-efficient use of donor funds.

MAKING SUPPLY-SIDE PROGRAMS MORE SUSTAINABLE

The supply side of social marketing is more likely to be sustainable when it responds to actual demand, rather than unmet need. Distribution is most efficient when it leverages commercial infrastructure and systems designed to meet the needs of actual users. Similarly, cost recovery is maximized when

The Society for Family Health in Nigeria: Shifting From Supply-Driven to Behavior-Change Strategies

The Society for Family Health (SFH) has been implementing social marketing programs in Nigeria since 1992. The challenging task of developing a national distribution network for the project's condom brand, *Gold Circle*, was carried out through a local pharmaceutical distributor. To complement this system, the project relied on provincial offices staffed with sales promoters in charge of opening new outlets, linking retailers with wholesalers, and making direct deliveries. By 1999, SFH's distribution system supplied more than 100,000 outlets throughout the country and employed 45 field-based employees.

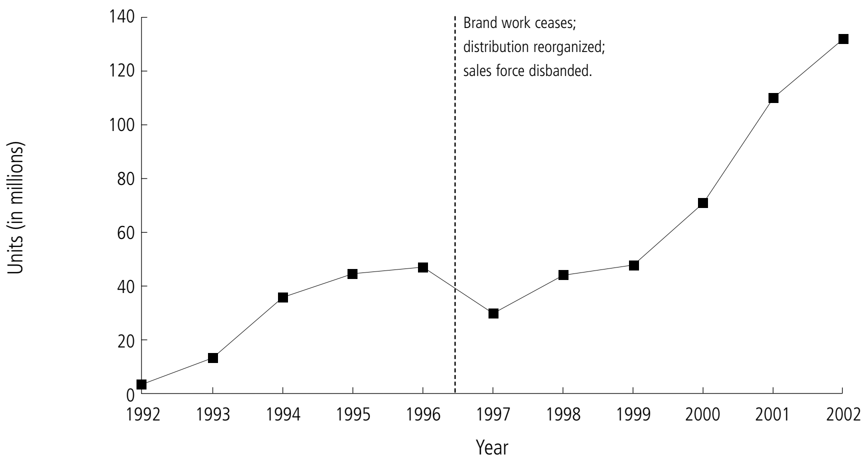
In 1996, the project encountered funding difficulties. This crisis coincided with a 45 percent decline in condom sales caused by a holding of excessive stock levels in the trade and a stagnation of consumer demand. Forced to reduce operating costs, SFH eliminated its in-house sales force and designed a system that leveraged Nigeria's sophisticated regional wholesale network. This new system resulted in a 50 percent saving in overall distribution costs. In addition, SFH eliminated brand advertising, which was now deemed unnecessary, because brand awareness had grown to almost universal proportions, and competition remained low.

Between 1997 and 2000, SFH developed a variety of targeted interventions based on extensive behavioral research. Contrary to what might have been expected, the scaling down of distribution and brand promotion activities did not have a negative impact on project sales. In fact, as SFH redirected its efforts to a targeted communication strategy (including both mass media and interpersonal approaches), sales of condoms began to rise again (see Figure 2). By 2002, the project hit an all-time record of 132 million condoms sold. A regression analysis of population-based behavioral data also revealed that the project's new strategy had produced increases in condom use as well as other preventive behaviors, such as the practice of abstinence or partner reduction.[8]

Net cost per condom sold decreased from $0.079 to $0.05 between 1997 and 2001, indicating increased cost-effectiveness, even as SFH invested in unprecedented levels of communication activities ($1.1 million in 2001). In addition, a comparison of distribution coverage data between 1997 and 2002 indicated that condoms were still found in the same percentage (60 percent) of all surveyed outlets. The case of SFH illustrates the importance of cost-efficiency in a changing environment. Though streamlining the distribution and sales force was prompted by a funding crisis, the project discovered that its impact would be greater if resources were primarily invested in behavior-change activities.

8 The behavior-change strategy developed by SFH/Nigeria and its outcomes are described in Meekers and Van Rossem's 2003 CMS report, "Overcoming Stagnating Sales in Social Marketing Programs: Case Studies of Nigeria and India."

Figure 2. Yearly sales of condoms by the SFH project



prices reflect ability to pay among actual users, as opposed to groups targeted for their unmet need or high-risk status. Clearly, this approach sounds more like commercial rather than social marketing. It does not preclude, however, the development of demand-side activities such as condom promotion in bars or community-based programs with a strong behavior-change component. Separating commercially sustainable activities from special outreach programs (such as non-traditional distribution) that may require sustained donor support can be helpful in controlling program costs.

Keeping supply-side activities as financially sustainable as possible may help SMOs withstand funding crises. For example, limited funding opportunities in Cameroon led PSI to develop a distribution system based entirely on commercial wholesaler networks, which kept operating costs very low. A recent study of the Nigeria condom social marketing project showed that streamlining distribution could be done without jeopardizing program performance (see Nigeria sidebar). This aspect of program efficiency may have been somewhat unnoticed at a time of unprecedented funding for HIV/AIDS programs.

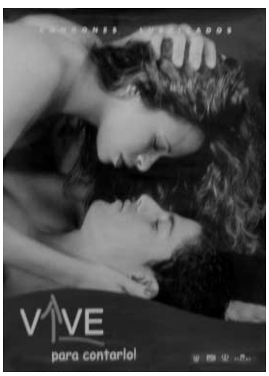
Sustainability Versus Health Impact: The PASMO Experience

The Pan American Social Marketing Organization (PASMO) was created in 1996 to implement a condom social marketing program in seven Central American countries. The primary goal of this seven-year USAID-funded project was to prevent the spread of HIV/AIDS. Intermediate objectives, as expressed in the original project design, included not only improving condom availability and use, but also achieving financial sustainability within seven years. The PASMO project was expected to become financially self-sufficient by selling 100 million condoms over the life of the project and developing profitable products to cross-subsidize social marketing activities.

The PSI-managed program developed a low-priced condom brand, *VIVE*, and promoted it to a mainstream audience, in line with a strategy of volume growth and cost recovery. During the first two years of the project, PASMO encountered a number of legal and logistical obstacles that slowed regional expansion and hampered the development of cross-subsidy products. Low condom use and competition from other condom suppliers destroyed any hopes of reaching the 100-million-unit benchmark within the project life. Competing aggressively for market share was also at odds with the World Bank's targeting guidelines for countries with nascent HIV/AIDS epidemics, which recommended focusing on high-risk groups, rather than mainstream users. By 1999, it had become clear that the project needed to be redesigned.

Consistent with the need to adopt targets based on epidemiology, condom sales were dropped as the project's key deliverable and replaced by population-based behavioral indicators. Priority groups were identified among those most at risk of HIV/AIDS infection, such as marginalized and low-income communities, and generic BCC became the mainstay of PASMO's prevention activities. In particular, PASMO developed innovative outreach programs and signed community-based distribution agreements with 22 NGOs that provided increased access to high-risk groups. Financial sustainability was redefined to account for limited profit-making opportunities and targeting requirements. New sustainability objectives included product cost recovery, donor diversification, and limited cross-subsidy activities.

Within two years, the project had implemented more than 6,000 BCC activities and contributed to the adoption of safer sex practices among key high-risk groups. At the same time, the condom market grew by 100 percent, allowing *VIVE* condom sales to quadruple and generate enough revenue to switch from donated to commercially procured condoms. Following this remarkable turnaround, USAID signed a new four-year cooperative agreement with PASMO in 2002. Additional funding from European governments further reinforced its focus on targeted HIV/AIDS strategies. The project that had been on the verge of failing is now widely recognized as a showpiece for effective programming in concentrated epidemics.



Yet there is evidence that the supply side of social marketing can be made more cost-effective and in some cases self-sufficient, even as its demand-side component grows increasingly donor-dependent.

CONDITIONS FOR PROGRAM EFFICIENCY

Improving program efficiency is possible and desirable in every context. Identifying the most effective uses of the marketing mix, however, requires research capacity. For example, to determine whether a brand should be repositioned, information about consumer perceptions must be available. Likewise, the only way to know whether a distribution system is reaching the intended target is to conduct population-based or distribution surveys. Appropriate pricing requires reliable measures of ability and willingness to pay, such as those used to determine the prices of contraceptives or clinic-based services (Foreit, 2002; Bratt et al., 2001, 2002; Marangoni et al., 1997).

TRADE-OFFS OF INCREASED PROGRAM EFFICIENCY

Increasing program efficiency may emphasize an inherent tension between commercial and social marketing: These two approaches often call for different targets and marketing approaches. For example, focusing on mainstream, predisposed consumers generates higher levels of program income than attempting to reach underserved people. Equity targeting (which focuses resources on those most in need) may require low prices, as well as more investments in research, outreach programs, and non-traditional distribution approaches. As long as programs favor cost-effectiveness as opposed to equity, they can maintain some level of status quo. When program goals call for a different approach, however, cost recovery may become incompatible with health impact (see PASMO sidebar).

5 Exit Strategies

EXIT STRATEGIES

Exit strategies allow for donor support to be phased out when social marketing brands become self-sufficient. At this point, a commercial partner agrees to assume the management of the brand and ensure sustained access to products. Some programs based on the manufacturer's model established a return-to-project fund in order to sustain social marketing products after graduation. This approach appears to have worked successfully in a number of countries, particularly in the case of condom social marketing. A study of five graduated programs by the SOMARC project demonstrated that companies continued to invest in advertising and promotion after donor assistance was phased out, albeit at a lower, "more sustainable" level (Kincaid et al., 1997). Graduated condom brands — such as *Panther* in Barbados, or *Protex* in Morocco — sometimes have lost market share to other brands with more substantial advertising support. However, sustaining overall product access, not defending a particular brand's market share, is the ultimate goal of such interventions.

Some social marketing brands that initially were developed with donated commodities have reached full self-sufficiency in a few countries and were subsequently licensed to commercial entities. This was the case for the SOMARC-managed condom program in Jamaica, where a local manufacturer took over the management of USAID-funded condom and oral contraceptive brands. In Morocco, PSI developed the *Biosel* brand of oral rehydration salts with raw material donated by UNICEF until increases in demand resulted in commercial sustainability. *Biosel* was licensed to a local manufacturer in 2003, and a return-to-project fund supports the promotional costs.

CONDITIONS FOR EXIT STRATEGIES

Exit strategies require the development of highly profitable social marketing brands, or commercial partners will be unlikely to pick up program costs after funding is phased out. These strategies can be successful in middle-income countries with substantial market potential for social marketing products. For example, oral contraceptive prevalence in Morocco was already 28 percent, and the private-sector market share was 40 percent in 1994, at the onset of the social marketing intervention. As pill usage, commercial sales, and market share continued to increase over the life of the program, commercial partners agreed to support it for five more years (see CMS/Morocco sidebar). In contrast, a similar oral contraceptive program in the Philippines started with a method prevalence of 8.5 percent and a private-sector share of 25 percent. Although sales grew during the intervention phase, the program coincided with weak improvements in prevalence and a decline in private-sector share. Predictably, commercial partners lost interest in social marketing brands over time (Population Technical Assistance Project, 1998; CMS, 2002).

In some countries, donor and government policies often affect private-sector sales when they result in widespread distribution of free products through public outlets. These policies have been known to discourage commercial suppliers from investing in family planning (Bulatao, 2002). They also explain why commercial partnerships in countries with strong public-sector programs (such as Jordan, Turkey, and the Philippines) have had limited impact on private-sector use. As a result, exit strategies may not be appropriate when public-sector programs have the effect of reducing the private-sector share of the market.

EXIT STRATEGY TRADE-OFFS

Strategies that rely on the commitment of commercial partners to sustain social programs after a donor phase-out entail risks. Manufacturers may cease to produce and market social marketing brands because they do not perceive enough profit potential. They may increase prices to boost profits, streamline distribution, and terminate costly mass media advertising. The consequences of these decisions may decrease access to products for those who need them the most, such as low-income and underserved groups. As described in a recent study, market "failures" may result in reduced access to health products (Hanson et al., 2001). In such cases, the financial sustainability of the intervention may be negated by its lack of impact. Exit strategies have had limited impact in the area of long-term contraceptive methods that require provider involvement, such as injectables and intrauterine devices. In Morocco and Turkey, demand was too low to justify sustained investments by manufacturers, suggesting that other interventions may be needed to build markets for these methods (Armand and Cisek, 2002; Senlet, 2003).

Long-Term Commercial Partnerships in Morocco

Social marketing programs have been implemented in Morocco since 1989. A condom brand named *Protex* was introduced by USAID's SOMARC project in partnership with a local pharmaceutical company and became financially self-sufficient in 1996. *Protex* began losing market share to new commercial brands after graduating from donor support. The total condom market, however, has grown by an estimated 50 percent, suggesting that social marketing helped reduce cultural barriers toward condom use and paved the way for more commercial investment.

Oral contraceptives were introduced in 1992 under the umbrella brand *Kinat Al Hilal*, in partnership with two pharmaceutical manufacturers. These partners agreed to contribute a percentage of sales to a project fund, which eventually allowed for a phase-out of donor support in 1997. After this phase-out, *Kinat* sales grew by 50 percent, and the overall market, by 25 percent. An intrauterine device and an injectable also were introduced in 1997 under the brand names *Hoqnat Al Hilal* and *Lawlab Al Hilal*, but consumer and provider attitudes toward these methods were far less favorable than they had been for condoms and pills. Despite substantial training and promotional efforts, sales of both methods remained disappointing. As of September 2003, commercial partners were not expected to sustain social marketing activities beyond the project's life.

In 1993, PSI developed *Biosel* (a brand of oral rehydration salts), with raw material donated by UNICEF, in partnership with a local manufacturer. In 1999, assistance from the CMS project helped strengthen local production capacity and relaunch *Diarit*, a commercial brand of oral rehydration salts. Large public-sector orders and growing consumer demand generated increased revenue and allowed for the creation of a return-to-project fund for *Biosel*. In 2002, PSI signed a licensing agreement with the manufacturer that included guaranteed minimum production levels, World Health Organization-approved quality standards, and limits on future price increases.

The manufacturer's model has clearly succeeded in Morocco, though not all products have fared equally well. Condoms, oral rehydration salts, and oral contraceptives benefited from favorable market conditions and became commercially sustainable. Intrauterine devices and injectables faced considerable cultural and economic barriers and proved to be in need of sustained donor funding.

6 Framework for Financial Sustainability Strategies

FRAMEWORK FOR FINANCIAL SUSTAINABILITY STRATEGIES

KEY FACTORS

The previous section reviewed the conditions that can influence the success of financial sustainability strategies. Cost recovery, the use of commercially sustainable brands, and exit strategies require high market potential for social marketing products (whether commercially sustainable or subsidized) and ability to pay among users. Exit strategies require the presence of commercial partners, and donor diversification is contingent on sustained donor funding for a particular country. Between these two approaches are varying degrees of cost recovery and income-generating activities that can maximize program efficiency while minimizing donor dependency.

Market potential, ability to pay, commercial presence, and the availability of donor funding are context-related factors. Market potential is a function of population size, overall demand for products, and the private-sector share of the market (because untargeted public-sector programs can reduce market potential for private-sector suppliers). Donor funding, ability to pay, and commercial presence are closely related to a country's income level, so GNI per capita can be used as a proxy for these variables. Consequently, it is possible to use market potential and GNI per capita to determine the applicability of various financial sustainability strategies (see Table 1).

In middle-income countries (with a GNI per capita between $735 and $9,076), opportunities exist for maximizing self-sufficiency. Average purchasing power may be high enough to allow for full cost recovery on social marketing brands and/or the development of cross-subsidy activities. Donor funding is likely to be low or reserved for demand-side interventions, as in the case of HIV/AIDS prevention. The success of partnerships with commercial suppliers and exit strategies is subject to the market potential of social marketing products. When it is low, commercial brands can be used, but exit strategies may not be realistic in the short term.

In low-income countries (with a GNI per capita below $735), full cost recovery of program costs is hardly feasible, though demand-side activities can improve the perceived value of contraceptives. Substantial economies of scale are possible where market potential for social marketing products is high, such as in countries with large populations and high levels of contraceptive use. Low GNI per capita limits opportunities for income-generating activities, but may coincide with high donor presence. Therefore, a strategy of donor diversification combined with program efficiency and economies of scale is appropriate for these countries.

Table 1. Matrix for context-specific strategies

Income level/Market size	Description of context	Financial sustainability strategy	Country examples
Middle income/ High market potential			
	High market potential may result from large population size, high contraceptive use, and/or high private-sector share. Middle-income countries often have national health insurance. Some may be undergoing health care reform, providing opportunities for service agreements. Donor funding is likely to be limited or phasing out. Substantial funding may be available, however, for HIV/AIDS prevention.	Full cost recovery and cross-subsidy schemes are likely to succeed in this context. Exit strategies can succeed as well because enough demand at sustainable prices makes social marketing products attractive to commercial suppliers. Donor funding should be sought for activities that would otherwise threaten financial sustainability, such as BCC for HIV/AIDS prevention or outreach programs for high-risk groups.	Brazil China Colombia Malaysia Mexico Morocco
Middle income/ Low market potential			
	Low market potential may result from cultural or religious opposition to contraceptives, small population size, and/or small private-sector share. Opportunities for service agreements may exist if public-sector policies promote increasing access to family planning services. Donor support is likely to be phased out or focused on special outreach programs. Funding may be available for demand-side activities.	Higher purchasing power allows for the use of commercially sustainable brands, but low market potential may prevent exit strategies in the short to medium term. Cross-subsidy schemes are possible since higher income means that profitable activities are possible in this context. Program should focus on demand-side activities, rather than price subsidies. Supply-side activities should match changes in demand.	Jordan Philippines Romania Turkey
Low income/ High market potential			
	High market potential may be the result of population size, limited public-sector services, and/or longstanding level of effort in promoting contraceptive use. Low-income status is likely to attract a variety of donors interested in improving access.	Strategy should focus on progressive cost recovery through economies of scale. Commercial brands might be used for market segmentation purposes. Opportunities for cross-subsidy activities are likely to be limited, but not impossible, for SMOs with high technical/operational capacity. Program should focus on maximizing product access, which may require price subsidies, and monitoring changes in willingness to pay over time.	Bangladesh India Nigeria Pakistan Vietnam
Low income/ Low market potential			
	Low market potential may result from cultural or religious opposition to contraceptives and/or small population size. Donor funding is likely to be available for both demand- and supply-side activities.	Partial cost recovery can be achieved, but true economies of scale may take years to build. Context is not favorable for commercially sustainable brands. Opportunities for cross-subsidy activities are likely to be limited by market size. Supply and demand activities should be coordinated and focused on specific target groups. SMOs should monitor changes in demand and ability to pay over time.	Burkina Faso Cambodia Madagascar Mozambique Myanmar Rwanda Senegal

This matrix only illustrates the influence of context on the success of sustainability strategies and cannot substitute for individual country assessments. Social marketing programs should adapt their strategies to changes in the environment, including competition, public health priorities, government policies, and especially willingness to pay by targeted groups. GNI per capita is an imperfect proxy for actual willingness to pay by specific population groups, and SMOs should use periodic surveys to measure this variable. Willingness to pay and market potential may both change over time, creating new opportunities for cost recovery and greater program efficiency.

7 Conclusions

CONCLUSIONS

Field experience and the social marketing literature suggest that the success of common financial sustainability strategies is highly influenced by local context, desired program outcomes, and technical capacity. In addition to identifying strategies that are compatible with local operating conditions, SMOs must reconcile them with their social mission, the wishes of their donors, and their own ability to carry out these strategies.

Self-sufficiency strategies result in programs that tend to be very different from those focusing primarily on health impact. They favor potential and actual users, rather than people with an unmet need, and seek cost recovery in supply-side activities. In contrast, programs that respond to health needs and donor priorities are likely to focus more on targeted populations and behavioral indicators, rather than product sales. As a result, approaches to social marketing in various countries are likely to become increasingly different.

Experience suggests that cost-recovery and income-generating activities require market research, strong financial systems, and competitive skills. Exit strategies call for expertise in developing commercial partnerships. Programs driven by health needs and donor priorities usually involve research and technical capacity, though these may be more focused on health-related than on market-related issues. Therefore, different strategies may call for different skill sets and should be compatible with an organization's human and organizational development.

The contraceptive social marketing field currently reflects these differences. Social marketing programs with a strong focus on targeted interventions and health impact typically are found in low-income countries, where many are focusing on HIV/AIDS prevention. These programs have moved beyond supply-based social marketing, developing expertise in population-based research and BCC. In contrast, programs operating in middle-income countries with low funding levels have become more entrepreneurial, which often has led to a dramatic increase in their share of the contraceptive supply. A growing number of organizations are exploring ways to generate revenue while preserving their social mission, often through innovative partnerships with commercial suppliers or service agreements with the public sector. In spite of strategic and philosophical differences, the vast majority of SMOs share qualities that reflect their firm grounding in marketing principles — the ability to adopt market-based approaches and seize opportunities when they arise.

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