**AFFORD**

**USAID** FROM THE AMERICAN PEOPLE

**Cost Effectiveness of TWO distribution models in Uganda
PSP-One ONLINE CONFERENCE**

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THE HEALTH MARKETING INITIATIVE

This is a presentation of a cost effecectiveness comparison among social marketing interventions over the years in Uganda. For this presentation we have compared the two most recent distribution models in Uganda.

## AFFORD — Presentation Overview

➢ **AFFORD background and overview**

➢ **Distribution Models**

➢ **Cost Comparison**

➢ **Distribution efficiency in relation to costs**

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My presentation will first give you a brief overview of the AFFORD Health Marketing Initiative and its activities followed by a description of the two models, the distribution cost and the efficiency comparison between the two most recent models

**AFFORD** **Vision**

❖Promote consistent and correct use of health products/services

❖Create growing and sustainable markets

❖Improve access to and affordability of basic health products

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AFFORD is a 5-year USAID funded project in Uganda with a vision to promote consistent and correct use of health products and services, create markets that are vibrant and attractive to the private sector and improve access to basic health products

**AFFORD**    **Objectives**

❖ Increase accessibility, availability and affordability of basic health products and services through private sector partnerships

❖ Empower communities and families to manage their health effectively through integrated marketing and communication activities

❖Establish indigenous, sustainable health marketing organization: Uganda Health Marketing Group (UHMG)

T H E   H E A L T H   M A R K E T I N G   I N I T I A T I V E

AFFORD has 3 major objectives: 1) to improve accessibility, affordability and availability of basic health products and services, 2) to empower communities and families to effectively manage their health and 3) to establish an indigenous organisation, the Uganda Health Marketing Group (UHMG), that will live beyond the project and carry on with AFFORD objectives while being established as a sustainable organisation.

AFFORD serves 4 areas of health interventions: HIV/AIDS, family planning, malaria, and child survival. AFFORD provides products in each of the intervention areas through its own brands or through the private sector.

**AFFORD**                    **Strategy**

❖ Consumer driven approach to market expansion
   - Identify consumer needs, preferences, willingness to pay (WTP)

❖ Strengthen existing distribution and service delivery systems to increase consumer access & reduce market risks

❖ Establish Private sector Partnerships

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AFFORD's strategy is consumer driven and all products and services introduced by UHMG are based on consumer needs and preferences. AFFORD's strategy is to work with existing private sector networks to strengthen distribution and expand the reach of its products for sustainability.
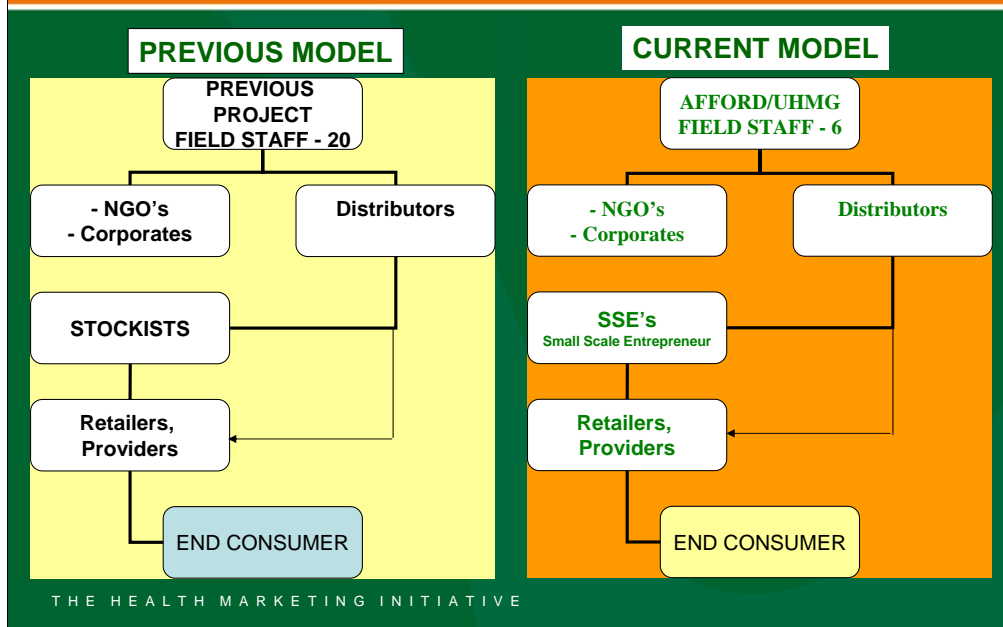
**AFFORD**  **Partnerships**

❖ **Local private sector organizations**
  – Improve efficiency
  – Share costs

❖**Promote sustainability**
  – Build on existing systems
  – Market expansion

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AFFORD encourages partnerships with indigenous private sector
organisations to expand markets and promote sustainability

Let us now look at the two most recent distribution models. Although similar structurally, you will notice two differences: (1) the number of sales staff between the two models and (2) the introduction of SSEs in the current model replacing the Stockists. The first model had 20 project field staff, while the current model has six. SSEs featured in the current model are ***small scale entrepreneurs*** that are private sector established businesses that primarily have the ability to cover the rural market (areas that would not be commercially viable for the distributors). On the other hand, stockists are major wholesalers, similar in nature to the distributor, who are mostly based in the vicinity of the distributors.

The other major difference is in the operations of the two models. Under the previous model, the project sales staff would pick up stocks from the distributors, sell directly, and bring the sales proceeds back to the distributor; whereas in the current model, the project sales staff focuses on demand creation, collection of orders and making sure that the distributors deliver and service the orders. The distributors are responsible for direct selling and collecting sales proceeds. In the current model the distributor shares more responsibility for sales achieved and outlets coverage with the project.

## Distribution Models
## Structure & Function

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| Previous Model | Current Model |
|---|---|
| - Appointed distributors countrywide<br>- Appointed Stockists<br>- Sales Reps (project as well as distributor<br>- Distributor Vehicles and outlets for both distributors and stockists branded by project<br>- Bicycle sales persons provided bicycles by project | - Appointed distributors countrywide<br>- Appointed SSE's<br>- Sales Reps (project as well as distributor)<br>- Distributor Vehicles and outlets for both distributors and SSE's branded by project<br>- SSEs provided with branded bicycles who distribute products in difficult to reach areas |
| **Function:**<br><br>Sales Representatives uplifted stocks from Distributors, supplied the stockists, retailers and brought back revenue to distributors | **Function:**<br><br>PMOs (Product Marketing Officers) pick orders, create new customers and pass on to distributors who supply the orders<br><br>SSEs service markets and areas which are difficult to reach by distributors |

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Here we look at the structure and function of the two models. There is a clear difference in the style of operations as explained in the earlier slide

**Parameters for Cost Effectiveness Analysis**

- Identified comparable cost categories

- Measured reach in terms of number of outlets

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Now that we have a better understanding of the two different models let us analyze the cost effectiveness on two parameters:  1) Direct costs of sales staff and 2) the reach in terms of number of outlets reached in comparison to the costs

**Parameters for Cost Effectiveness Analysis**

**Comparable Cost Categories**

- Salaries

- Per diem

- Sales Vehicles Running Expenses

**Comparable Distribution Reach**

**Number of outlets where condoms were made available**

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The comparable cost categories are clearly outlined

**AFFORD** **Cost Information - Source**

- **Previous Model**
  - Publicly available project records as of September 2005
- **Current Model**
  - AFFORD/UHMG actual project expenses
- **Average monthly costs**
  - Actual spending, not adjusted for inflation
  - Shown in UGX. (millions)
    - For reference: US $1.00 = UGX. 1,700 (January 2008)

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The source of information for the most recent model compared is from publicly available project records and for the current model is based on actual project expenses. Average monthly distribution costs using the three cost categories were calculated in millions of Uganda shillings.

**Outlet Coverage Information - Source**

- USAID baseline number of outlets – 2005

- AFFORD/UHMG retail audits – 2006 – 07

- AFFORD/UHMG baseline survey data – 2006

- Data show no. outlets reached at a given point in time

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This slide indicates the information sources for the measurement of the number of outlets reached.
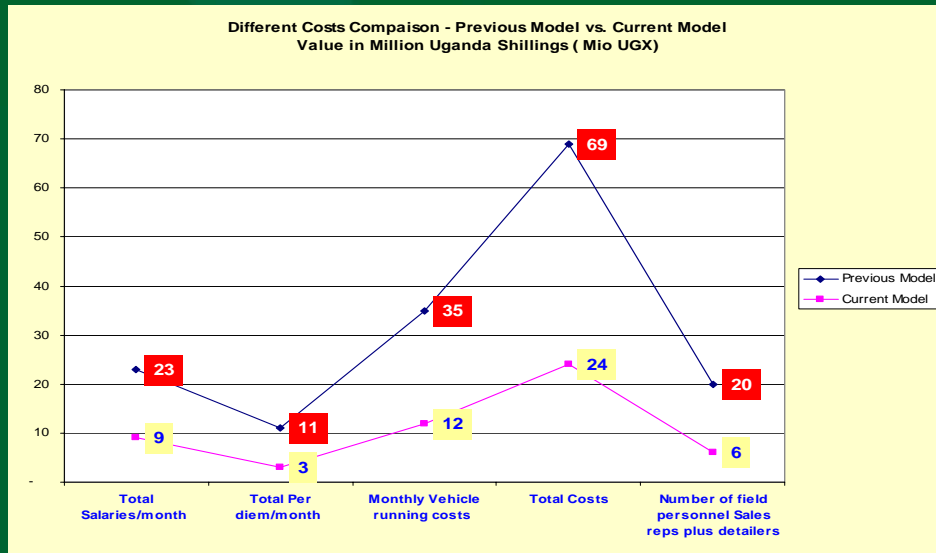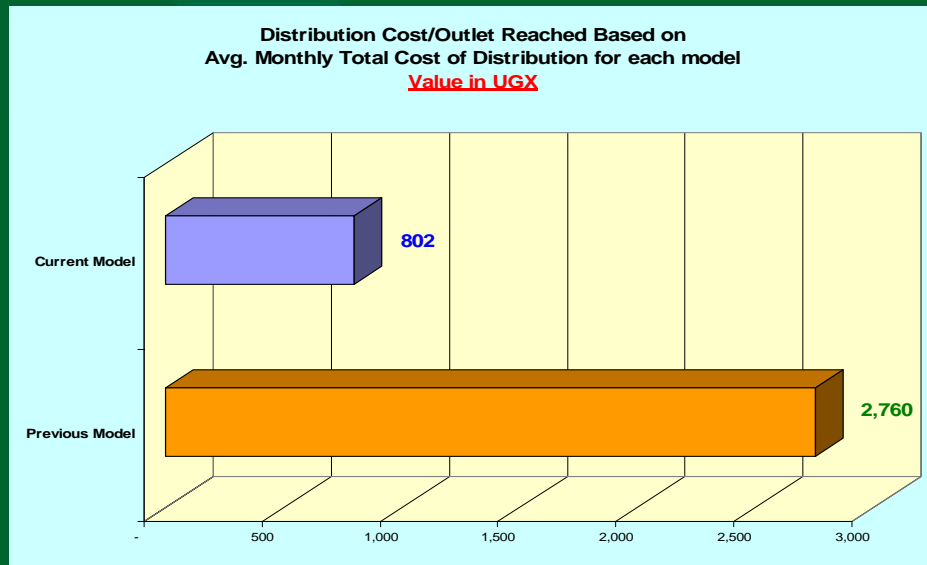
This graph clearly shows the difference in costs between the two models. The element contributing the most to the lower monthly cost in the current model is the reduced number of sales staff (and their accompanying costs, ie., vehicles, fuel, up-country per diem).
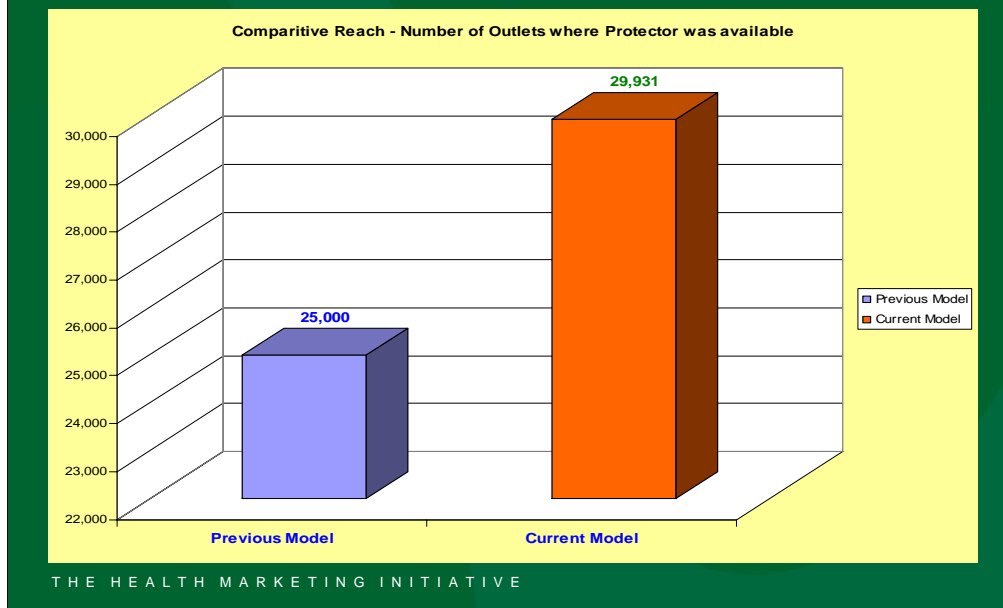
This slide shows that although the distribution models differ, the number of condom distribution outlets reached in the current, less costly model – over 29,000 - is more than the number of outlets reached in the previous model.

**AFFORD** Distribution Cost/Outlet Reached

Distribution Cost/Outlet Reached Based on
Avg. Monthly Total Cost of Distribution for each model
Value in UGX

Current Model — 802
Previous Model — 2,760

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This graph brings out the efficiencies between the two models and how one can reduce cost without losing out of productivity and reach. In the previous model, the cost per outlet reached was Ugx. 2,760, while in the current model it is Ugx. 802 per outlet.

**Distributor Margins**

- **Previous Model**
  - Publicly available project records as of September 2005 as well as Interviews with distributor
- **Current Model**
  - AFFORD/UHMG actual margins based on current pricing structure

*Margin (%) discussed in this presentation is limited to Protector condoms*

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There is also one other difference between the two models, which is the margin structure. We reviewed the margin structures for Protector condoms between the two models. This slide indicates how the margin information was obtained.

**AFFORD** **Comparative Distribution Chain Margins**

| | Protector Dispensor pack | Model | Distributor Price - UGX | STOCKIST / SSE / NGO Price UGX | Retailer Price UGX |
|---|---|---|---|---|---|
| | **60's** | **Current** | **1,500** | **1,750** | **2,400** |
| **(%) Margin** | | | | **17** | **37** |
| | | **Previous** | **1,400** | **1,600** | **2,000** |
| **(%) Margin** | | | | **14** | **25** |

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This slide shows the differences in price structure and margins to distributors between the two models for Protector condoms. In the current model, the distributors, SSEs and retailers have higher margins than in the previous model.  We believe that this margin structure helps to engage these private partners more effectively in the AFFORD partnership.

**AFFORD** — **Factors Influencing Distribution Reach**

- Reduced number of project field staff and vehicles

- Strengthening of participation by the Private Sector

- Shared responsibility and costs with distributors (used existing network of distributors to extend reach)

- Motivation through margins for Distributor and SSEs

- Project focused on demand creation activities

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In summary, the efficiency in distribution in the current model is achieved for three reasons: 1) effective coverage with fewer project personnel, 2) better margins to the trade that motivate them to increase their reach, and 3) demand creation activities that help move the stocks from the retailer.

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**THANK YOU**

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