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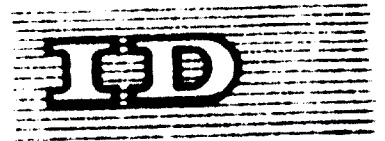
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Expert Group Meeting on the Production and  
Distribution of Contracted Goods in the  
Developing Countries (Organized by UNIDO  
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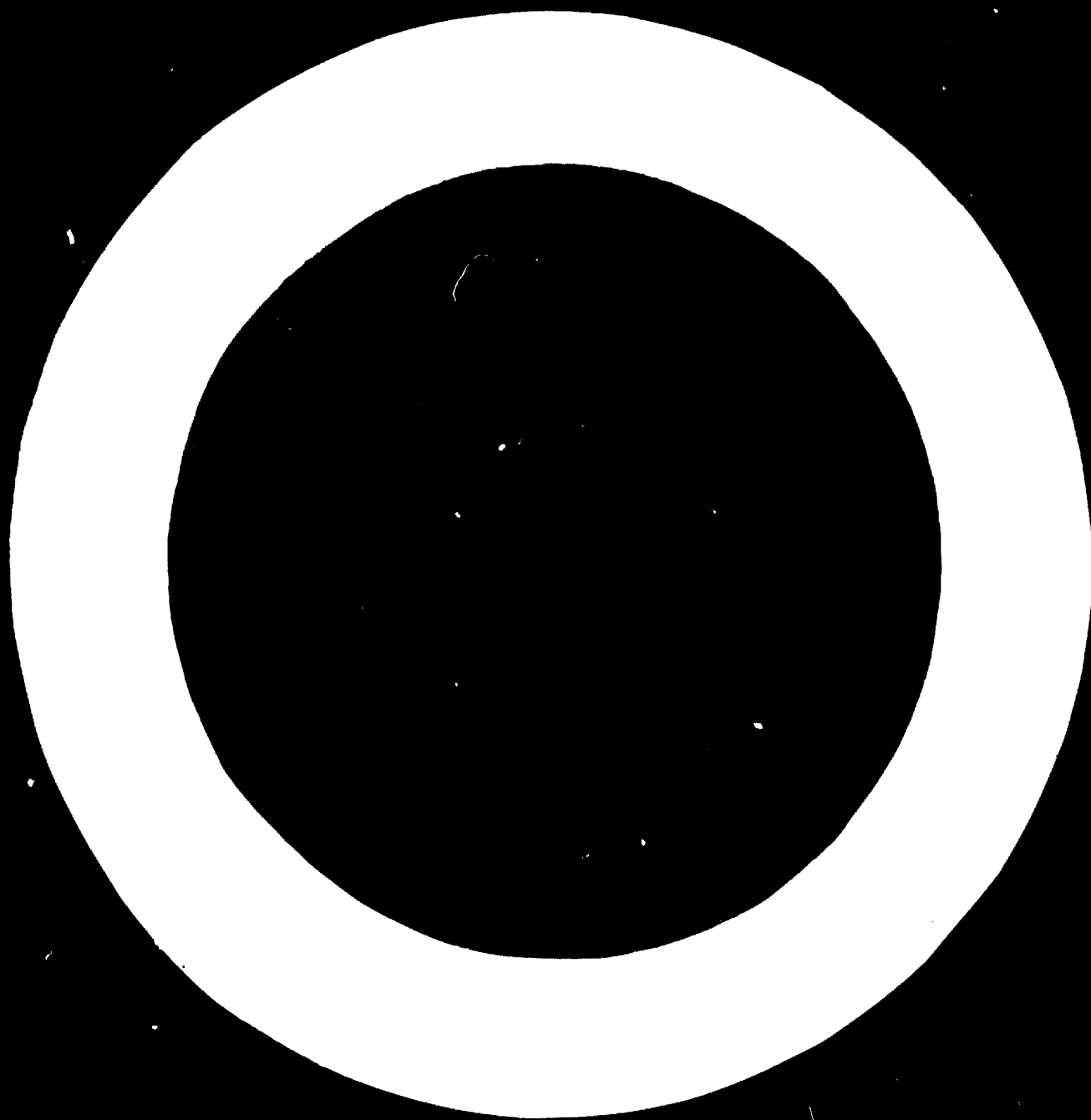
New York, 22 - 24 November 1971

PRODUCTION AND DISTRIBUTION OF CONTRACTED GOODS  
AS A MEANS OF IMPROVING TRADE

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1/ The views expressed in this report are those of the expert group and do not necessarily reflect those of the United Nations Industrial Development Organization.

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.



Having recently visited six developing countries in the Far East and Mexico on behalf of the Swiss drug company, I should like to share with you some of the problems and obstacles which were encountered in attempting to introduce a new spermicidal contraceptive into these countries. Some of the difficulties relating to sanitary registration actually did not differ significantly with that discerned by my associates in several European countries. Some of the difficulties relating to promotion, distribution, and product pricing, however, are unique to the developing countries and their large masses of people with little purchasing power.

In general, contraceptives fall into two major groupings; those such as the oral contraceptive, which in some countries require a prescription and are regulated as drugs and those such as the condom and vaginal preparation which in other countries may be sold over-the-counter or more accurately, from under the counter. In many developing countries, regulations may require prescriptions but in actuality, most all drug preparations may be purchased over the counter without a prescription. This situation, however, seems to be changing as the Ministries of Health in many developing countries become more protective of their citizens' well being. In Thailand and Korea, for instance, where the authorities in the past looked the other way when contraceptives were advertised, stricter controls are being exerted to limit advertising oral contraceptives as well as antibiotics. The effect of these and similar actions will be to limit the availability and use of the pill since the number of physicians to write prescriptions is limited and women visit those few that are available only for illness.

An increasingly stringent environment in the developing countries may impede the introduction and promotion of contraceptives. In many countries, the condom may be sold for VD protection but not as a contraceptive.

In most situations, it is necessary to act through a local distributor or a local company in order to register the product with the Ministry of Health. Without such registration, market activity on any large scale is impossible. If a product is judged to be potentially hazardous, data on safety is required and a certificate of free sales in the country of origin is expected. In some countries, registration as a contraceptive will limit the opportunity to advertise.

Some developing countries, such as Mexico, will not permit registration as a contraceptive even though over 600,000 pill cycles per month are presumably sold as menstrual regulators. If a product is registered as a drug, it may only be sold through pharmacies severely limiting the possibility for widespread distribution through other retail outlets. Registering as a drug will also restrict the amount of direct promotion to the consumer. In order to avoid these restrictions, a vaginal contraceptive might be sold as a vaginal hygienic preparation, which could be advertised to the public. This product orientation, however, would have to be overcome later at the point of sale by the retailer or through consumer word-of-mouth information diffusion. Too ambiguous a promotional approach for selling contraceptive products may detract from successful promotion but may be necessary for entry into the market.

Ministry of Health registration in many countries, assuming reasonably sound documentation, may take three to six months. If local testing is required, thousands of dollars and a year to a year and a half may be consumed to meet the feeling that evaluation must be done locally. Fortunately, a degree of reasonableness toward honest, meaningful data, no matter where such data is developed, still prevails in many developing countries.

When discussing a marketing strategy with a potential local distributor, the landed cost of the product, the costs of the distribution, promotional costs, the anticipated profit, and the ability of the targeted market to buy must all be considered in establishing a selling price. If a low cost product has promising potential for widespread distribution, low margins may be acceptable to the manufacturer, the distributor and retailer interested in high turnover, as has happened with the pill. Other products such as the condom have traditionally been in the hands of distributors who will accept a smaller market share for higher unit sale profits.

Urban distribution with short supply lines will permit a lower selling price to the consumer. Distribution costs go up exponentially with the distance from urban centers and large masses of people in rural areas, who are almost out of the cash economy, practically are unable to afford the luxury of contraception even if they were informed and motivated to use it.

In developing countries, the burden of high interest rates for tied up capital adds significantly to the costs charged by the distributor. It is not unusual for a distributor to offer 90 day payment terms to a retailer and then be happy to be paid in 120 days (the 2 or 3% per month interest will eventually be born by the consumer in the retail price).

In countries, such as Thailand, Indonesia and Korea as many as one-quarter to one-third the possible retail outlets are not directly reached by the wholesaler as these are considered bad debt situations and unworthy of a salesman's time. Some of these shops may be reached by other retailers acting as sub-wholesalers willing to take the risk. Again, the cost will be born in the consumer price.

If a manufacturer or distributor is content to sell to the limited middle class market in the developing countries then a packaging and pricing approach similar to that used in the developed countries will be used and an intensive detailing to the pharmacist will contribute to the pharmacist's product awareness and willingness to promote a product. The profit margin will be attractive and make it interesting for the pharmacist to guide his customers toward contraceptive products. But this small middle class is not our primary interest and only represents a beachhead for contraception to larger populations, albeit an important start.

Assuming we wish to reach a large mass of consumers, then it becomes imperative that we look at disposable income and retail prices for such items as medical care, cigarettes and alcoholic beverages of the groups in which we are interested. Tracing our way back up the discounts and taxes of the distribution chain, we will then arrive at a target manufacturer's price if the product were produced domestically or a landed cost if it were imported. Working back through customs duties, costs for buying currency exchange, freight and other levies will bring us to the foreign manufacturer's price if the product is imported. The manufacturer, domestic or foreign, reviewing his selling price under this method of construction may find the profit levels available to be unacceptable. He might justly say, from his point of view, the projected profit in the mass market will not be worth the expenditure of effort and promotional funds for the high risk involved in reaching this market at the low retail price.

Another consideration for mass markets is the absolute need for the simplest and lowest cost unit package. One must remember that the contraceptive is competing at the consumer level with such items as a cigaret or a



cheap razor blade as well as an aspirin. In his small way, a local retailer with little to spend on inventory and looking for high turnover faces a dilemma with his limited financial resources. His question is, "How do I make the largest and fastest profit on the five peso worth of stock I will buy from the wholesaler?"

Incentives in the form of economic return must be available to encourage the various groups all along the distribution chain to want to sell contraceptives.

Some synergism between the distribution structure and potential outreach of the private sector and an infusion of funds by non-profit or government agencies to help create consumer demand will be required. UNFPA should act concretely in this direction. More research must be done to ascertain more accurately the demand that can be created at acceptable price levels in mass markets. Without this research, neither the funding agencies nor the private sector will move beyond the distribution beachheads. However, the need to market aggressively to the ends of the distribution network should be the primary consideration of the funding agencies -- and not prior market research. Market research should be a tool of the marketing process, not an end in itself.





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