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What Works: CareShop Ghana

Improving access to essential drugs
through conversion franchising

Sponsor:
Horace W. Goldsmith
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What Works: CareShop Ghana
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conversion franchising

Joel Segrè and Julia Tran

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Chapter 1

Executive Summary

In April 2002, Ghana Social Marketing Foundation (GSMF) founded CareShop as the first project of GSMF's wholly owned for-profit subsidiary, Ghana Social Marketing Foundation Enterprises Limited (GSMFEL). CareShop is a franchise of licensed chemical sellers (retailers of over-the-counter drugs) designed to improve the quality, accessibility, and affordability of essential medicines across Ghana on a for-profit basis. CareShop uses market forces to improve health outcomes across the country and seeks an alignment of interests across franchisors, franchisees, and patients.

While Ghana's healthcare infrastructure includes a multitude of public, NGO, and private institutions, the private sector is often better suited to meet patient demands, with far greater geographic accessibility throughout the nation and more consistent availability of essential drugs. Roughly 65% of all treatment seeking behavior in Ghana occurs in the private sector.¹ The first point of care is often a drugstore run by a licensed chemical seller (LCS), and stocked with the most common over the counter medications.

LCS are not always structured or regulated to provide the quality, accessibility and affordability that patients require, especially in rural areas. LCS lack standardization, and while they are an indispensable part of the healthcare system, some also present a threat to public health through the provision of incorrect, expired, substandard, or counterfeit drugs.

CareShop unifies and standardizes the fractured LCS sector in Ghana through conversion franchising. Individual franchisees operate as profit centers, contractually bound by clearly defined, strict regulations on diagnosis, quality, and pricing of a specific list of drugs. When properly functioning, the CareShop franchise makes it more profitable to comply with government and franchise regulations than to break them.

Over CareShop's five-year history, it has made great progress in building its network and business, but has also faced formidable challenges. Today, its network of 276 franchisees continues to operate, but the franchisor, GSMFEL, has failed to turn a profit. In this case study, we will explore the CareShop business model and the challenges it faces today.

¹ Tonia Marek and others, "Trends and Opportunities in Public-private Partnerships to Improve Health Service delivery in Africa," *PSP-One*, USAID, http://www.psp-one.com/files/2685_file_wB_ppp_paper_Marek_et_al.pdf.

Chapter 2

Market Overview

In 2007, Ghana celebrated its 50th anniversary as an independent nation. A former British colony, Ghana now hosts one of Africa's most stable governments and promising economies. Though Ghana has made steady progress toward reaching its development goals, there are myriad obstacles left to overcome, especially in healthcare. The following chapter provides an overview of the challenges that Ghana Social Marketing Foundation sought to meet through the CareShop franchise.

2.1 Population and health

Ghana is home to 22.5 million people, 79% of whom live on less than \$2 a day.² Malaria remains the country's top killer, followed by HIV/AIDS, diarrheal diseases, lower respiratory infections, and perinatal conditions. These five diseases account for 50% of all deaths in Ghana, and 68% of deaths among children 0-14 years old.³

Out-of-pocket and national expenditures toward battling infectious diseases represent a significant portion of household and government spending, locking many families and, by extension, the country, into a cycle of disease and poverty. According to Health Minister Major (retired) Courage Quashigah, government and private expenditures on malaria treatment alone totaled US\$772.4 million in 2007, an amount equal to Ghana's health budget for 2008. Despite this level of spending on malaria treatment, the disease is still responsible for 1 in 5 childhood deaths.⁴

2.2 Healthcare system

Access to healthcare remains a major challenge in Ghana, particularly in the rural regions. The Ministry of Health estimates that only 45% of rural households, compared to 92% of urban households, have

² United Nations Development Programme, "Human Development Report 2007/2008—Ghana," *Human Development Reports*, http://hdrstats.undp.org/countries/data_sheets/cty_ds_GHA.html.

³ Isaac Adams and others, "Ghana National Burden of Disease and Trends Analysis," *WHO Africa Region: Ghana*, World Health Organization, http://www.who.int/healthmetrics/tools/logbook/en/countries/gha/2006_Ghana_Burden_of_Disease_Study.pdf.

⁴ Sulayman Makalo, "Malaria Cripples Ghana's Health Budget," *afrol News*, <http://www.afrol.com/articles/27317>.

access to a health facility, meaning they are within an hour's travel to a public or private facility by any means of transportation.⁵

The majority of Ghanaians with access to a health facility receive care from public or non-profit entities, which account for 48% and 9% of all facilities, respectively. As is common in the region, the subsidized care at these facilities is far from free. In addition to the lost wages associated with long lines at public facilities, public sector stock outages mean that patients frequently must pay for their own medicines at private sector pharmacies. In fact, public facilities typically do not have in stock 32% of essential medicines, which are out of stock 37% of the time, on average.⁶ In some cases, patients may be able to fill their prescriptions at private pharmacies when drugs are unavailable at public facilities, but 90% of Ghana's 1,200 registered pharmacists practice in urban areas.⁷

Non-profit facilities, many of which are run by Christian Health Association of Ghana (CHAG) or Muslim Ahmadiyya Movement, deliver healthcare to approximately 40% of the population. In recent years, CHAG has become more closely integrated with the public health system and receives considerable support from the government.⁸ A small portion of the Ghanaian population receives its healthcare from private facilities that primarily cater to higher income, urban populations.

For the present, many Ghanaians without access to formally trained health providers rely on licensed chemical sellers (LCS) for treatment. Generally, LCS do not have formal healthcare training and self-finance small-scale, family run drug stores. The Ghana Pharmacy Council authorizes licensed chemical sellers to dispense non-prescription drugs. LCS must apply annually for an operating license from the Council. Licensing criteria for chemical sellers have been relatively lax and simply required that applicants have proof of completion of senior secondary school or its equivalent⁹ and have no criminal record. Specific health-related training has not been a requirement.

"There are over 1,000 pharmacy outlets, both retail and wholesale, and about 8,000 chemical retail sellers. Some 75% of the retail pharmacies are located in Accra, Kumasi, and Sekondi Takoradi, which together have less than 30% of the population. This indicates the very small coverage of the country by retail pharmacies and hence the heavy dependence on chemical sellers by our rural folk. In over 60% of the cases, rural chemical sellers are first-line providers of medicines."

Felix D. Yellu, Chief Pharmacist, Ghana Ministry of Health¹⁰

As of 1999, there were 7,961 chemical shops registered with the Pharmacy Council, and an estimated 2,000 unregistered chemical shops.¹¹ Even in areas where formal care is available, many Ghanaians choose to seek first-line treatment from chemical shops. A survey of 500 patients admitted to health

⁵ Ghana Ministry of Health and World Health Organization, "An Assessment of the Pharmaceutical Sector in Ghana," *WHO African Region: Ghana*, World Health Organization, http://www.who.int/countries/gha/publications/Ghana_level2_report_version_12_08_04rev.pdf.

⁶ Strategies for Enhancing Access to Medicines Program, "Access to Essential Medicines: Ghana," *Seam: Country Programs: Ghana*, Management Sciences for Health, http://www.msh.org/seam/reports/Ghana_final.pdf.

⁷ Ibid.

⁸ Ibid.

⁹ Pharmacy Council Ghana, "Education and Training," http://www.pharmacycouncilghana.org/edu_train.html#lic.

¹⁰ Management Sciences for Health, "Improving Access to Medicines for All," http://www.msh.org/news_room/news_releases/7june05.html.

¹¹ Strategies, "Access."

facilities for malaria found that 43% had taken anti-malarial drugs before seeking hospital care and that half of those had obtained the drugs from a chemical shop.¹²

Healthcare financing and the National Health Insurance Scheme: Since 1985, health providers in every sector operated on a “cash and carry” basis and attempted partial or full cost recovery by charging patients upfront for consultations and medications. In 2004, Ghana officially launched the National Health Insurance Scheme (NHIS) to replace its “cash and carry” policy. NHIS wholly subsidizes the participation of indigents and those under the age of 18 or over 70, and offers sliding scale fees for others.¹³ An estimated 47% of Ghanaians had joined by the end of 2007.¹⁴ Those enrolled receive an insurance card and may present the card in lieu of payment when seeking treatment from accredited providers. Service providers then seek reimbursement from a district level administrator. NHIS covers 95% of common diseases¹⁵ for which patients seek preventative care and treatment, but does not cover most tertiary care and some chronic diseases, such as HIV/AIDS and chronic renal failure.¹⁶

While successful implementation of NHIS would universalize healthcare in Ghana, many obstacles remain before NHIS meets this vision. NHIS’ challenges include, among others, a lack of standardized service delivery and fee schedules among its many service providers; an inadequate, paper-based record keeping system; and insufficient management and administrative capacity. Many enrollees have yet to receive their identity cards, and many service providers wait months for reimbursements, if they receive reimbursements at all.¹⁷ Even if NHIS were fully operational, Ghana’s health facilities are still far from able to meet the demand for healthcare due to the health system’s limited capacity and reach, especially in rural areas.

2.3 Drug dispensing regulations

The Pharmaceutical Act of 1961 established drug prescription and dispensing rights according to drug classes A, B, C, and exempted drugs (see Table 1).

The clauses in the Act that define drug classes have not been updated since 1961, and newer drug therapies have since been developed that do not fall under original dispensing restrictions. Anti-malarial drugs, for example, are not listed as over the counter, yet are legally available through LCS outlets, and are among the top sellers.

¹² Kwame O. Buabeng and others, “Self-Reported Use of Anti-Malarial Drugs and Health Facility Management of Malaria in Ghana,” *Malar J* 6, no 85 (2007): <http://www.pubmedcentral.nih.gov/articlerender.fcgi?artid=1920525>.

¹³ Alexander Preker, “Ghana—Health Insurance Project (English),” *Documents and Reports*, World Bank, <http://go.worldbank.org/724WLIBX40>.

¹⁴ Major (rt) Courage Quarshiegah (presentation, at Meet the Press, Accra, Ghana, 9 October 2007). Available from: http://www.ghana.gov.gh/ghana/presentation_health_minister_major_rtd_courage_quarshiegah_meet_press_october_9_2007_accra.jsp.

¹⁵ Ghana Broadcasting Corporation, “Add Kidney Diseases to the NHIS,” (30 November 2007). Available from: <http://gbcghana.com/news/17080detail.html>.

¹⁶ Sara Sulzbach, Bertha Garshong, and Gertrude Owusu-Banahene, “Evaluating the Effects of the National Health Insurance Act in Ghana: Baseline Report,” *PHRplus Technical Reports/Africa*, USAID and Partners for Health Reformplus, http://www.phrplus.org/Pubs/Tech090_fin.pdf.

¹⁷ Preker, “Ghana.”

Table 1: Drug classification and dispensing restrictions¹⁸

Class	Drug and Dispenser
Class A	Class A drug definitions are split into two parts. Part I drugs are such drugs as barbiturates, amphetamines, sulphonamides, antibiotics, etc. which should be supplied only on medical practitioners' prescription; Part II are the narcotic drugs. All class A drugs are, therefore, supplied only on prescription
Class B	Class B drugs are those drugs which are supplied by Registered Pharmacists only to "responsible persons," but not on prescription.
Class C	Class C drugs are drugs which are to be supplied by both chemical sellers and registered pharmacists. These drugs are not sold on prescription.
Exempted	Exempted drugs (i.e. those not in classes A, B and C) are such drugs as aspirin and sodium bicarbonate which can be sold by anyone and at any place.

In practice, the Pharmacy Council has very limited capacity to enforce drug class legislation and penalize chemical sellers who illicitly carry class A and B drugs. The Council inspects approximately 20% of registered pharmacies and chemical shops in the country, and the primary reason chemical sellers fail inspection is stocking prescription drugs.¹⁹ Though the Council has the authority to revoke licenses, the infrequency of punitive enforcement means that pressures to carry restricted drugs often outweigh the threat of closure. Chemical sellers, especially those in rural areas, face strong financial and social incentives to keep a stock of class A and B drugs, which can bring in as much as 50% of their revenue! Beyond the financial incentive, these LCS argue that their ability to dispense class A and B drugs can mean the difference between life and death for some customers. In recognition of these realities, the Ghana National Chemical Sellers Association has been lobbying the government for training programs that would qualify LCS to dispense legally some class B drugs.²⁰

2.4 CareShop's market opportunities

CareShop's founders perceived Ghana's heavy infectious disease burden and inadequate healthcare infrastructure as signs of unmet demand for more accessible, available, high-quality drugs and preventatives. CareShop's goal is to improve access to non-prescription drugs with significant health impact, such as malaria and diarrhea medication. Because chemical sellers can legally dispense such drugs and are already well represented throughout Ghana, CareShop endeavors to meet its goal by improving the service quality and drug supply chains of Ghana's chemical sellers.

¹⁸ T.E.C. Sagoe, "Narcotics Control in Ghana." *Bulletin on Narcotics* 2, (1966): http://www.unodc.org/unodc/en/data-and-analysis/bulletin/bulletin_1966-01-01_2_page003.html.

¹⁹ Strategies, "Access."

²⁰ Ghana News Agency, "Official Raises Concern Over Fake Drugs in the Market," (21 May 2007). Available from: <http://www.modernghana.com/low/content.asp?which=1&id=VFZSTk1rMVVZM289>.

Chapter 3

Business Model

Ghana Social Marketing Foundation (GSMF) started CareShop after building a nine-year history as one of Ghana's most successful family planning and social marketing non-profit organizations. GSMF's branded contraceptives have long been among the best selling brands in 6,000 retail outlets across the country. Although GSMF was able to recapture some of its costs through product sales, it wished to diversify its revenue sources through a new, for-profit subsidiary, Ghana Social Marketing Foundation Enterprises Limited (GSMFEL). Given that GSMF already had good relations with thousands of licensed chemical sellers, it made sense that GSMFEL's first program, CareShop, would build upon that professional network.

Conversion franchising, the process of appropriating independent licensed chemical sellers into the CareShop network, plays a central role in the CareShop strategy. Over three years, CareShop successfully integrated over 270 shops into its franchise network, making CareShop one of the largest drugstore franchises on the continent.

As the franchisor, GSMFEL was to be the exclusive supplier of each franchisee's over the counter drug products. Through bulk purchasing, the franchisor would benefit from volume discounts, then sell the products back to the franchisees at normal wholesale prices. The margin between the discounted cost and the wholesale price was to be enough to fund both CareShop operations as well as generate a profit back to the parent NGO, GSMF.

3.1 Conversion franchising as a business strategy

No other growth strategy can touch the speed, reach, or cost-effectiveness of franchising when it comes to creating a standardized service experience across a broad geography. In a typical "business format franchise," an individual entrepreneur uses her own capital to establish a new branch of the franchised chain. McDonald's, for example, has over 31,000 virtually identical restaurants spread across more than 100 countries. Low capital intensity for the franchisor, combined with an ability to scale rapidly made franchising appealing to GSMFEL as a way of standardizing individual chemical shops in a relatively unregulated environment.

Unlike McDonald's, however, CareShop chose not to seek entrepreneurs to build their own stores from a "green field." Instead, CareShop offered existing LCS the opportunity to renovate their stores and

business practices to become CareShop franchisees in a process known as conversion franchising. With 8,000 licensed chemical sellers spread throughout Ghana, there would be no shortage of potential conversion targets. Success would rest in the alignment of interests between the franchisor, the franchisee, and the patient.

For the franchisor, conversion franchising held several advantages over “green field” strategies. First, it is legally simpler for the entrepreneur. It takes an average of 11 procedures over 42 days (compared to 6 days in the USA) to establish a “green field” business. Second, conversion would reduce the capital requirements since all targets already had functioning shops. Third, conversion ensured that the franchisees already had at least some business sense because most converts had years if not decades of prior experience in managing their own business. Fourth, converting a large number of retail outlets helped CareShop to diversify its own risk across multiple outlets, demographics, and geographies. Finally, conversion allowed CareShop to appropriate immediately a pre-existing knowledge base and customer base. Each conversion target already had a substantial clientele, and had a valuable local knowledge of patient treatment-seeking behavior. This knowledge base would be helpful in serving those patients more efficiently.

For the franchisee, CareShop presented the opportunity to improve her income while maintaining her autonomy. Ninety-five percent of LCS own their outlets, and of these, 60% rely on the shop as their sole source of income.²¹ Improving the profitability of the store, therefore, is a very strong incentive. While many LCS acknowledged that they might increase profitability through outside assistance, the vast majority (72%) indicated that they would not consider operating their businesses with a partner, primarily because they could not afford to share the profits. The CareShop franchising model, on the other hand, appealed to 76% of respondents as a way to capture outside help in improving their profitability, even at the expense of some autonomy.

For the customer, CareShop symbolizes a trusted, consistent, high level of service at the point of sale as well as a trusted product supply chain.

3.2 Franchise conversion process

GSMFEL’s conversion strategy was the key to its rapid growth. Conversion consists of three interrelated activities that take place over several months. Franchisees must be recruited and trained, sign a franchising agreement, and renovate their stores according to the franchise guidelines.

3.2.1 Franchisee recruitment

In conversion franchising, the franchisor must essentially sell the franchise concept to the franchisee. This can be particularly challenging when approaching existing licensed chemical sellers who have been running profitable businesses for years if not decades. How could a newcomer to the industry convincingly recruit veterans, especially when recruitment required that the veterans give up their independence for an unproven benefit?

GSMFEL set out to find conversion targets in the four regions nearest to Accra. Finding the right recruits consisted of both door-to-door pitching and presentations to the Ghana National Chemical Sellers Association (CSA). Using GSMF’s strong ties to the CSA, GSMFEL attended member meetings in Volta, Eastern, Central, and finally Greater Accra regions. At each meeting, they would communicate the

²¹ Ghana Social Marketing Foundation and Project Orchids, “Chemical Sellers Franchising Exploratory Market Study” (March 2003).

opportunity to join CareShop using two primary selling points: improved supply chain, and improved training.

Improved supply chain: In an industry where LCS spend as much as 30% of their time purchasing inventory from a deeply fractured supply chain,²² GSMFEL offered what it believed would be dramatic advantages. GSMFEL would not only supply 100% of each franchisee's drug inventory, but it would also deliver inventory directly to the franchisee's store. The approach was revolutionary for two reasons. First, there was not a single supplier in Ghana that could offer an LCS 100% of her required drug inventory. Despite claims of comprehensive product lines, no distributor carried more than 60% of an LCS's needs, so LCS were constantly shopping from wholesaler to wholesaler to build their inventory.²³ Second, GSMFEL was unique in its commitment to serving rural areas and its promise to deliver to the customer's store. Without GSMFEL, LCS would typically take a bus to an urban center in order to shop for products, a costly process in terms of transportation, not to mention lost sales. In fact, a 2003 survey of 11 LCS found that on average, they spent \$227 a year on transportation to buy their inventory.²⁴ On top of these supply chain improvements, GSMFEL promised franchisees the same credit terms, usually 30 days, offered by other distributors.

Improved training: Training turned out to be an even more powerful recruiting tool than the supply chain. Although Ghana's 8,000 LCS vastly outnumber the country's doctors, LCS across Ghana feel as though they have been marginalized, and that their services have been unrecognized relative to those of more highly trained healthcare professionals. The opportunity to receive some degree of formal training appeals to most LCS both as a way of improving business performance as well as recognition of the important role each LCS plays in community health. CareShop offered extensive training spread over several weeks and divided into the following five modules:

Module A:	Introduction to Franchising	3 Sessions
Module B:	Business and Financial Management	4 Sessions
Module C:	Drug Management	7 Sessions
Module D:	Clinical Services	9 Sessions
Module E:	Action Planning	5 Sessions

As a recruitment tool, CareShop offered a free introductory training session to any LCS. At the conclusion of the first session, attendees would have the option to continue the training if they joined the CareShop franchise. After the introductory session, a large portion of the attendees immediately recognized the value of continuation and signed up to join the franchise.

Although the CareShop training manuals have over 500 pages, a few lessons from the training surfaced repeatedly as favorites. First, franchisees valued that CareShop helped them to renovate the interior and exterior of their stores to look more attractive and professional to their customers. Second, they felt that the training on product marketing techniques helped them to increase the average size of their transactions. Third, franchisees appreciated basic health training because it enabled them to deliver higher quality customer service and increased their confidence as informed health providers. Franchisees received training on how to diagnose and treat common diseases and how to recognize diseases that require a referral to a health facility. Finally, franchisees were consistently keeping records

²² Ghana Social Marketing Foundation, "GSMFEL Business Plan: Franchise of Chemical Sellers for the Supply of Essential Medicines" (business plan, May 2003).

²³ Ibid.

²⁴ Yaw Brantuo, "A Report on the Short Term Financial Requirements of the Typical Licensed Chemical Shop," (March 2003).

with a much higher level of rigor than non-franchisees. But these lessons were only the beginning, and franchisees were eager to talk at length about how the training revolutionized their businesses. Beyond the practical value of the training, these sessions allowed franchisees to form lasting friendships with their peers and GSMFEL staff, and to develop a sense of pride in being associated with CareShop.

Initially, the costs of training were extremely high and heavily subsidized by Management Sciences for Health, a Washington DC non-profit organization that offered extensive consultation and in-kind support to GSMFEL during CareShop's implementation. GSMFEL itself fully subsidized the participation of the first few batches of trainees and covered their travel and room and board. As the value of the training spread through word of mouth, however, new recruits became increasingly willing to pay for training and GSMFEL was able to increase training fees gradually. GSMFEL viewed this as a very positive trend, though user fees never covered all of the costs of training.

3.2.2 Franchising contract and costs

Once GSMFEL approved an application, both GSMFEL and the franchisee sign a franchise agreement that remains in effect for three years, at which time the agreement is renewable if the franchisee is in good standing. The following excerpt from GSMFEL company documents presents the contractual obligations of the franchisor and franchisee:

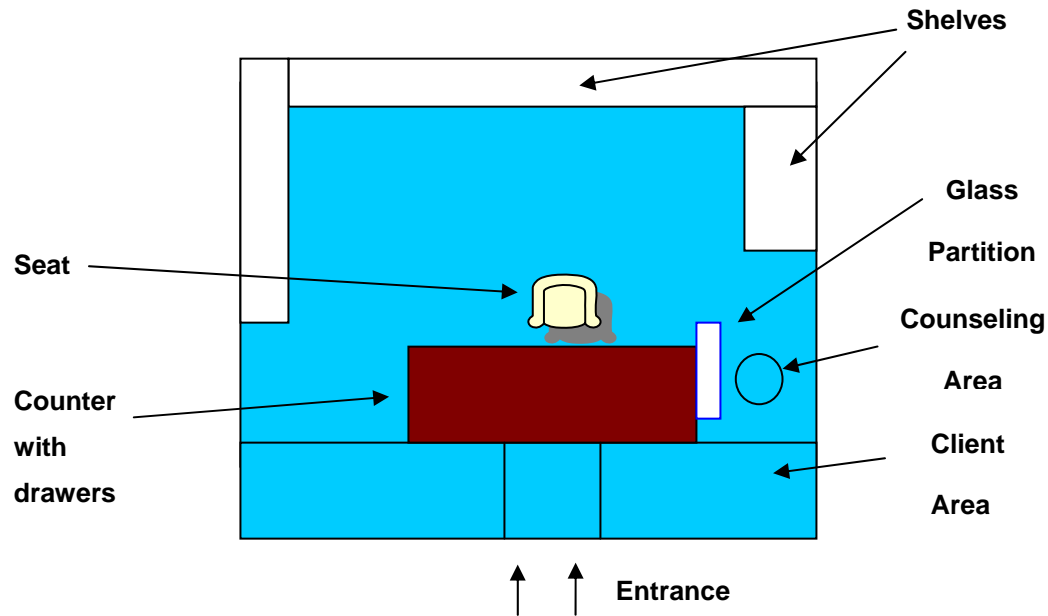
Franchisor commitments	Franchisee commitments
Intensive initial training	To undertake training
Regular re-fresher and follow up training	To undertake refresher and follow up training
Regular supervision and monitoring	To operate according to the rules and regulations of the franchise
A reliable supply of low cost, quality assured commodities	To buy commodity only from the Franchisor and to sell products at the agreed prices
Franchise brand name promotion/advertising	To refurbish the shop according to franchise minimum quality requirements and use the franchise logos and standard layouts
Mentoring and support on all aspects of business operation and pharmaceutical practice appropriate to the level of operation	To pay franchising fees and royalties

In reality, CareShop franchisees maintain more autonomy than would be supposed from the franchising agreement. The exclusivity of the CareShop supply chain, in particular, has never been fully realized. It is simply not economically or logistically possible for the franchisor to supply every brand of product that any of the over 270 shops may request. Without being able to supply every requested product, therefore, franchisees have sometimes felt entitled to buy from competing channels. Rather than expending resources to enforce supply chain exclusivity, CareShop has wisely focused on trying to build franchisee loyalty through other means discussed below.

Cost of franchising: CareShop franchisees pay an initiation fee of ₵15, or approximately \$15. In addition to the initiation fee, CareShop owners must cover the costs of store renovation and a portion of their training expenses. Renovation costs represent the bulk of conversion costs and could run into the hundreds of dollars depending on how extensively franchisees choose to renovate their stores.

3.2.3 Renovation

All franchisees are required to renovate both outside and inside their stores at their own cost. For outside renovations, franchisees are required to paint their stores blue and white using color codes provided by GSMFEL. Internal renovations are specified by a basic recommended layout, detailed in the CareShop training manual and copied below:



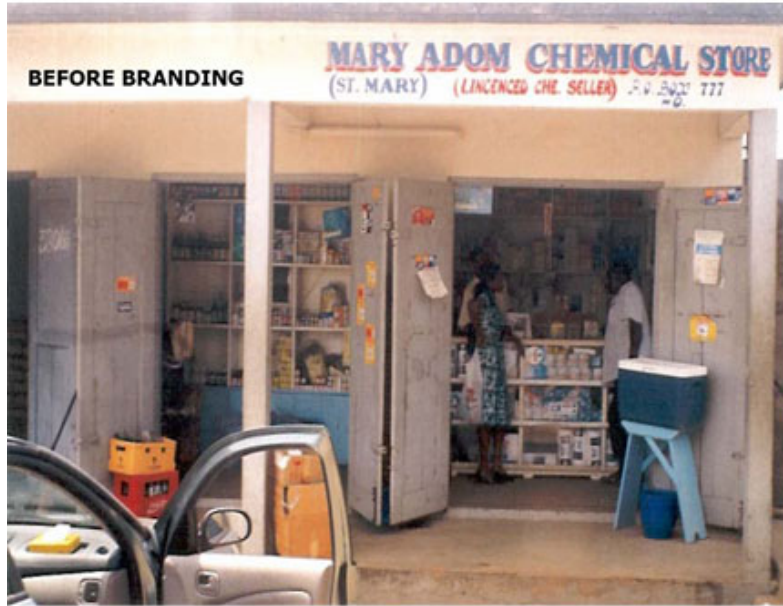
Franchisees frequently go well beyond these basic requirements and repave their walkways, install awnings, fans, air conditioners, linoleum flooring, sliding glass doors, and so on. When franchisees were asked why they had decided to make these additional renovations, many responded that the training had inspired them to invest in their business as a way to set them apart from their competition. They expressed pride in the improved appearance of their stores and observed that the changes increased customer traffic.

GSMFEL requires all franchisees to have a basic equipment list, copied below from the CareShop operating manual:

Tablet counter	Spoons (3 tsp & 3 tbsp)	Scissors
Waste basket	Branded plastic/paper envelopes	Cups
Liquid measure	Courier bags	Hand washing bowl

Additionally, franchisees are required to re-arrange their inventory according to therapeutic class and prominently display the name of the therapeutic class on each shelf. In some versions of CareShop documentation, franchisees are further required to post the prices of their drugs. In practice, however, the authors did not observe any pricing posted in any store.

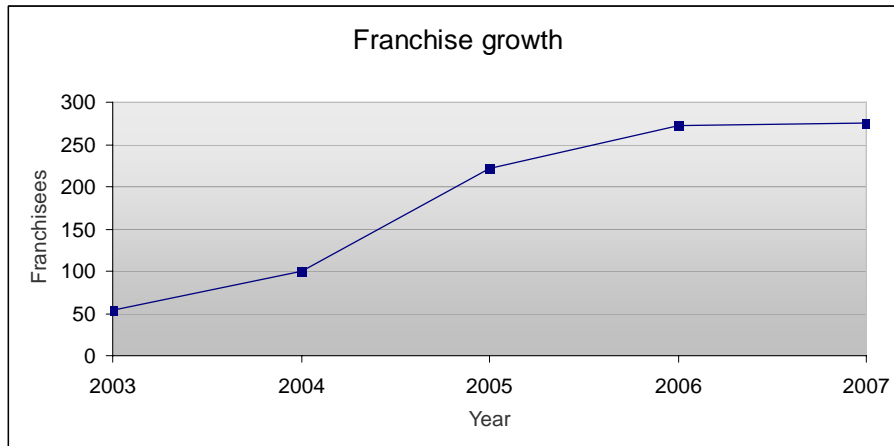
Once franchisees complete training and pass a site inspection, GSMFEL provides CareShop branded attire, including a white lab coat to franchisees and aprons to store assistants. GSMFEL also provides a customized CareShop sign with the licensed chemical seller's name prominently displayed. Placing the name alongside the CareShop brand is a requirement of the Ghana Pharmacy Council, which requires that the individual LCS name and license number be displayed. Additionally, however, it is a way to recognize the individual franchisee, and a source of pride among participating LCS.



3.2.4 Trends in conversion

Once the initial group of LCS completed their conversions to CareShop, the rate of conversions began to accelerate. Since the value of the brand grows with a greater number of conversions, CareShop began to enjoy a virtuous cycle of conversion (see Figure 1).

Figure 1: Growth in number of franchisees over time



Stores along major roads increased the visibility of the brand to the public while CareShop LCS promoted conversion to their peers. One of the strongest signs of CareShop's brand value was that non-affiliated LCS began to paint their stores to look like a CareShop outlet.

In the past several years, the rate of conversion has slowed as GSMFEL has had to reduce operations sharply due to financial constraints. Nevertheless, LCS continue to express the desire to join CareShop as a way of keeping up with their competitors. The mere visibility of the existing CareShop outlets appears to be a surprisingly powerful driver for potential conversions.

3.3 GSMFEL operations

The main objectives of GSMFEL's operations are to procure and deliver drugs, monitor and evaluate franchisees, and build franchisee loyalty.

3.3.1 Procurement and delivery processes



GSMFEL warehouse

Procurement: GSMFEL designed and documented a rigorous tendering process in order to ensure fully transparent bidding for each CareShop product. Suppliers were to be selected based on price, quality, quantity, and lead-time. In practice, however, GSMFEL was sometimes forced to purchase from specific manufacturers, regardless of the tender, due to franchisee demand for that manufacturer's specific product line. In some cases, manufacturers of high demand products were able to require advance payment for their products. GSMFEL's major suppliers are all Ghanaian and include Ernest

Chemicals Ltd., Kinapharma Ltd., M&G Pharmaceuticals Ltd., Pharmanova Ltd., and Ayrton Drugs. From the manufacturers, all drugs are brought to GSMFEL's warehouse in Accra, which shares a building complex with GSMF's condom packing facilities.

Inventory management: Once at the warehouse, GSMFEL organizes inventory on shelves by product name and inputs all purchases and sales transactions into Tally accounting software. Tally is able to display comprehensive information on GSMFEL's debts, receivables, and warehouse inventory.

Order placement is designed to coincide with CareShop's two-week delivery cycle. Franchisees place orders by calling or faxing GSMFEL's warehouse, or more frequently by handing an order sheet to GSMFEL's delivery team. Once the warehouse receives an order, its staff will enter the order into the Tally system, pack available items into one box, check items against the order list, generate an invoice, and seal the box along with the invoice for delivery.

Delivery: Once individual delivery boxes are packed, products reach the franchisees in one of two ways. In direct delivery, which is much more common, GSMFEL staff use one of their three delivery vehicles to bring products to the franchisee's store. In depot delivery, GSMFEL trucks leave parcels for the most remote franchisees with another franchisee in the area. The intended franchisee then uses public transit to collect the parcel. While rare, depot delivery helps GSMFEL to serve nearly 300 shops every two weeks using only three delivery vehicles.

Collections: Upon delivery, franchisees can examine the contents of their deliveries and send back any items they no longer need. Franchisees may pay for the remainder on the spot or on 30-day credit. Initially, CareShop collections were not as effective as hoped for three reasons. First, the delivery driver did not always have a document detailing the amount owed by each franchisee and therefore was impaired in his ability to collect. Second, the scheduled timing of the delivery sometimes allowed franchise owners to plan to be absent when the delivery truck arrived, and leave their assistants in their stead. Without the owners present, assistants frequently would not pay, yet delivery drivers would drop off the next shipment. Finally, among some franchisees there was a notion that the American philanthropic dollars that went into CareShop would cover their outstanding debts, so they were not always eager to pay. GSMFEL has already corrected several of these problems, but difficulties with collection have lingered.

Box 1: Allied Pharmaceuticals

GSMFEL quickly realized that the same operational infrastructure designed to support CareShop was valuable well beyond the CareShop network. In particular, there are hundreds of LCS and even pharmacies in Accra that could benefit from the CareShop supply chain but will never be targets for franchising. If GSMFEL were able to sell the same products used in CareShop to unaffiliated shops in Accra, it would benefit from greater purchasing power with its manufacturers, and greater margins on sales in urban Accra, which is much less expensive to service. With these opportunities in mind, GSMFEL founded Allied Pharmaceuticals in 2004. According to CareShop financial projections, Allied was to compose roughly 25% of total GSMFEL sales. At the peak of Allied's performance, it brought in 13% of revenue and served 98 customers.

3.3.2 Monitoring and evaluation

In recognition that CareShop's success depends on uniform quality and service delivery across the franchise, GSMFEL designed rigorous supervisory mechanisms to enforce franchisee compliance with

CareShop standards. A field supervisor was to visit each franchisee at least once monthly to provide business advice and evaluate compliance according to a 52-point checklist that covered all aspects of operation, from record keeping to customer relations. GSMFEL had also planned to set up a helpdesk line to make ongoing technical support available to franchisees and a hotline for customers to report service complaints.

While GSMFEL was able to finance dedicated field supervisor visits in the beginning of CareShop's operations, field supervision became too costly as a standalone process, especially for franchisees located in remote areas. GSMFEL was forced to de-formalize the process and combine it with product delivery visits.

3.3.3 Building loyalty

One of the ways GSMFEL hoped to decrease its monitoring and evaluation burden was through the cultivation of franchisee loyalty. Every quarter, GSMFEL published *CareTalk*, a glossy, color newsletter in which the franchisor gave tips on improving business operations and patient care. Perhaps even more importantly, though, *CareTalk* profiled a CareShop owner in every issue. These profiles were a point of pride for the business owners profiled, who would often prominently display the profiles inside their shops.

Beyond the newsletter, GSMFEL held annual meetings to bring together all the franchisees. Franchisees viewed these meetings as class reunions with peers from their training sessions and took them as opportunities to share best practices and strengthen friendships. The meetings also allowed GSMFEL to recognize publicly the top performing LCS. Rather than focusing only on sales metrics, LCS were also recognized for how well they embodied CareShop values of high quality service and patient care.

When GSMFEL received an in-kind donation of 100 computers, GSMFEL put the assets to work as performance incentives for their franchisees. Over several years, the top performing franchisees were awarded a new computer, which several of them prominently displayed in their stores. In interviews with franchisees who owned a computer, they expressed the desire to record sales data electronically, yet their computers were not in working order, or electricity was not available. The primary value of the computers may have been as a symbol of professionalism as opposed to a tool for increased productivity.

3.4 Franchisee operations

Though GSMFEL prescribes a set of procedures to all CareShop owners, the franchisor must maintain a delicate balance with franchisees. While GSMFEL wishes to impart a standardized experience across all CareShop outlets, it must also respect the wishes of the franchisees to maintain some elements of their own operating style. The three main components of the GSMFEL prescription are sales and inventory management, product promotion, and patient referrals. GSMFEL has largely left product mix and pricing to the discretion of franchisees.

3.4.1 Sales and inventory management

GSMFEL requires that franchisees track each transaction and provides a standardized ledger. The ledger provides space for franchisees to note down the customer's complaint, sex, age, purchase and price paid. Accurate record keeping helps them to track business and customer trends. Flipping through a logbook, a franchisee can recall which drug each customer had purchased on his last visit and recommend the next purchase accordingly.

While GSMFEL more rigorously monitored its franchisees' record keeping practices in the past, currently, it is up to the discretion of franchisees whether and how much record keeping they perform. While record

keeping discipline varied from CareShop to CareShop, it was usually better than those of non-franchised LCS operating in the same regions.

3.4.2 Product promotions

In Ghana, the Pharmacy Council prohibits chemical sellers from advertising. Most CareShop managers rely on the outward appearance of their stores, word-of-mouth reputation, and customer loyalty for their sales. A couple franchisees, however, mentioned that they promote their business indirectly by educating their community and church members about health issues and maintenance.

In light of franchisees' limited opportunities and resources for advertising activities, GSMFEL and Population Council partnered on a project to train franchisees on complementary selling as a way to increase same store sales. Using complementary selling techniques, the LCS observes the patient's intended purchase and suggests additional, related products that may improve the patient's outcome. The project focused on the following product pairs:

Primary product	Complementary product
Antimalarials	Analgesics and nutritional supplements
Oral rehydration salts	Nutritional supplements
Anthelmintics	Nutritional supplements
Condoms	Lubricant

Franchisees interviewed after the project's completion and those with whom we spoke were highly complimentary of the training and technique. The training improved their knowledge of which products to offer as complements and how to position the products with customers. They believed the training improved their customer service skills and resulted in increased revenue.

3.4.3 Patient referrals

All franchisees interviewed for this study estimate that they refer about five customers every month to the nearest clinic or hospital for treatment. Generally, franchisees might refer customers with broken bones, very young children, or those with clear symptoms of an infection requiring medical attention. One franchisee routinely follows up with the customers whom she has referred to make sure that they have received treatment.

3.4.4 Product mix

Franchisees typically stock a wide array of over the counter medications. A 2003 survey of 200 chemical sellers²⁵ found that drugs in the following therapeutic classes are typically on offer:

Analgesics	Anti-malarials	Contraceptives	Skin treatments
Antibiotics ²⁶	Blood tonics	Cough medicine	Vitamins
Anthelmintics	Cold and flu	Diarrhea medicine	

In addition to health products, franchisees often stock soft drinks, toiletries, soap, candy, cosmetics, lotto tickets, phone cards, and other miscellaneous goods. Though these products generally have low profit margins, GSMFEL encourages franchisees to carry such products to drive customer traffic. GSMFEL itself does not supply these products to franchisees.

²⁵ Ghana and Project Orchids, "Market Study."

²⁶ Respondents who reported antibiotics in their stock were likely unaware that they are illegal for LCS to carry.

3.5 GSMFEL and franchisee-level product pricing

GSMFEL's original financial projections hinged on the assumption that its negotiated discounts with suppliers would average 25%. GSMFEL would keep 20% of this discount as revenue through a pricing markup on its sales and pass the remaining 5% discount to franchisees. Instead, GSMFEL was only able to negotiate 7-8% discounts on average from its suppliers.²⁷ Table 2 provides GSMFEL's purchase prices from wholesalers and its sales prices to franchisees for selected products. GSMFEL's margins on these products are modest, ranging from -26% on its condoms, which are heavily subsidized by GSMF donors, to 17% on paracetamol. Since its negotiated discount rates are relatively low, GSMFEL has not been able to compete on pricing against other suppliers that sell to chemical shops. GSMFEL's pricing is generally on par with that of its competitors.

Table 2: Wholesale, distributor, and retail pricing for selected CareShop products (GH¢)²⁸

Product	Wholesale price	GSMFEL price	GSMFEL markup	Retail price	Retail markup	Customer complaint
Champion condom	0.015	0.011	-26%	0.025	56%	Family planning
Kwik Action tablet	0.021	0.021	0.3%	0.038	43%	Back pain, headache
Martin's Liver Salt	0.040	0.042	7%	0.130	67%	Stomach upset
Mist Sennae Co. (1 bottle)	0.300	0.338	13%	0.600	44%	Constipation
Paracetamol blister (10 pack)	0.059	0.069	17%	0.100	31%	General pain, headache
Malafast tabs (3 pack)	-	0.228	-	0.500	54%	Malaria
Rapinol tablet	-	0.021	-	0.038	45%	Headache
Alaxin syrup (1 bottle)	-	-	-	2.500	-	Malaria
Tanzol syrup (1 bottle)	-	-	-	0.800	-	Worms infection

Franchisee-level pricing: Though the CareShop franchise agreement stipulates that prices are not to exceed GSMFEL recommendations, GSMFEL has not been regulating retail prices. While GSMFEL management would like CareShop to offer uniform, discount pricing across the franchise, it would be costly and politically difficult to enforce pricing regulation among franchisees who prize the freedom to determine their own pricing. Franchisees often use pricing to control profitability, a common tactic of retailers in Ghana, where merchants routinely profile their customers' ability to pay and set prices accordingly. Franchisees also frequently extend credit to customers without the means to pay. Six of the 11 LCS surveyed in a 2003 LCS earnings study had customers on credit with total monthly credit sales ranging from GH¢3 to GH¢20.²⁹ Though GSMFEL has had to leave CareShop retail pricing largely to local market forces, GSMFEL managers have observed that CareShop has increased price competitiveness among wholesalers, and potentially reduced retail prices.³⁰

The retail prices and margins in Table 2 are a sampling from one CareShop franchise located in a rural area. Many customers who frequent the franchise are farmers. Analgesics for headaches and body pains were popular among customers, who would purchase a few pills at a time. Customers also purchased life-saving drugs for malaria and worms in the smallest possible unit. The sample prices

²⁷ Daniel Mensah, interview by Joel Segre and Julia Tran, November 12, 2007.

²⁸ Dashes indicate unavailable information. Wholesale and GSMFEL prices are volume-weighted averages of prices offered throughout the period January-June 2007. One Ghana cedi is roughly equivalent to the US dollar.

²⁹ Brantuo, "Report."

³⁰ Mensah, interview.

suggest that these small volume purchases put CareShop retail pricing in the range of affordability in a country where average annual per capita income is approximately \$485, or \$1.33 per day.³¹ There is still room to improve CareShop's retail prices, however, given that the purchase of a bottle of Alaxin syrup, an artemisinin-derived malaria medication, would still require approximately 2 days' wages from the average Ghanaian.

3.6 Financial overview

GSMFEL designed CareShop to be financially self-sustaining at both the franchisor and franchisee level. The franchisor would rely initially on startup capital from grants and low-interest loans but quickly transition to earned income from product sales and franchisee fees. Franchisees would maintain a revenue stream strictly from product sales, and would receive no subsidy from the parent organization.

3.6.1 Franchisor financials

Revenue: GSMFEL originally expected revenue from three sources: grants and loans, franchise fees, and product sales.

- A. **Grants and loans:** Estimating that it could reach breakeven in 2005, with 325 stores, GSMFEL raised \$220,000 from the Bill and Melinda Gates Foundation, £114,200 from the Ghana Business Linkages Challenge Fund, sponsored by DFID, and \$28,362 from Population Council. By 2005, it was clear that GSMFEL was falling behind its projected rates of conversion, and even 325 stores would not cover costs as hoped. All grants were depleted by 2006. In addition to grant funding, GSMFEL had also sought a short term loan with favorable rates from Summa Foundation, a non-profit fund dedicated to financing private health providers, before the launch of CareShop. Unfortunately, the loan fell through at the time of inception, and GSMFEL resorted to a ₵100,000 (roughly US\$100,000) overdraft facility from Ecobank, a Ghanaian commercial bank. This overdraft facility has covered GSMFEL's operating deficits since 2004.
- B. **Franchise fees:** GSMFEL planned to collect training and annual renewal fees from its franchisees that would have covered more than a tenth of GSMFEL's SG&A. Though GSMFEL did collect some training fees, they were insufficient to cover costs, and no annual renewal fees have been collected from franchisees.
- C. **Product sales:** Profit margins on sales to franchisees were to make up the majority of the franchisor's revenue by design. However, they failed to meet projections. GSMFEL estimated that turnover per customer in 2003 would reach ₵2,910 and grow more than five-fold by 2007, but actual per customer turnover in 2003 was ₵1,403 and decreased almost five-fold by 2007. GSMFEL has had tremendous unforeseen difficulties in capturing franchisee drug purchases and collecting payments from both CareShop and Allied Pharmaceutical customers. As of June 2007, outstanding payments from CareShop franchisees totaled ₵31,630, and from Allied customers, ₵14,673.

Costs: GSMFEL's cost of goods sold and fixed costs were both higher than estimates. Lower than expected supplier discounts of only 7-8% resulted in higher cost of goods for GSMFEL. Additionally, GSMFEL exceeded its fixed cost estimates by 250% in 2003, and came in at ₵119,076 instead of ₵48,276. Fixed costs were at least double original estimates in 2004 and 2005, and did not fall under estimates until 2007, by which time operations had been drastically reduced.

³¹ United Nations, "Report."

Financial outlook: GSMFEL has not been able to turn a profitable year since the launch of CareShop. As its inventory levels and staff roster have been reduced due to insufficient funds, it is clear GSMFEL's operations are financially unviable should business continue as-is. In June 2007, GSMFEL's deficit totaled ₵266,618 (see Appendix B).

3.6.2 Franchisee financials

In 2003, GSMFEL commissioned an independent study of LCS earnings before launching its operations. The study's purpose was to determine the impact of conversion costs and franchising fees on the profit margins of existing LCS, and thereby to guide GSMFEL's fee levels, collection policies, and financing interventions. Using survey data, the study generated a cash flow statement for a typical chemical shop (see Table 3), though it must be noted that the sample size (11 chemical sellers) was small and the results should be taken as rough guidelines.

Table 3: Typical chemical shop's annual income statement

Typical Licensed Chemical Shop Income Statement	
All values in 2003 US\$	
Revenues	
Sales	15,931
Cost of Goods	11,814
Gross Profit	4,117
Operating Costs	
Non Drug Purchases	167
Transportation	227
Employee/Staff Salaries & Wages	543
Rent	151
Electricity	247
Water	60
Telephone	186
District Assembly Permit	18
Pharmacy Council License Renewals	11
LCS Membership Dues	39
Training and staff development	15
Maintenance	28
Miscellaneous Exp.	69
Total Operating Expenses	1761
Earnings Before Tax	2,356
Tax	61
Net Income	2,295

The data above suggest a few important trends. Total sales of \$15,931³² amount to somewhere between \$45 and \$55 in sales per day, reasonable estimates for a well-positioned LCS. This is consistent with projections for high population density areas in the original GSMFEL business plan. However, in rural

³² Conversion rate between GH¢ and US\$ from December 31, 2003, generated by Bank of Canada 10-year Currency Converter: <http://www.bankofcanada.ca/en/rates/exchform.html>.

areas, sales averages can dip down to \$12-18.³³ Nevertheless, LCS who are able to maintain an income statement like the above can live relatively comfortably on the \$2,295 of net income each year, especially considering average per capita income in Ghana was \$485 in 2005.³⁴

³³ Ghana Social Marketing Foundation Enterprises Ltd. (business plan, April 2002).

³⁴ United Nations, "Report."

Chapter 4

Challenges and Opportunities

GSMFEL is at a critical juncture between being overtaken by the many inherent and operational challenges of running a chemical seller franchise, and leveraging its experience and innovative business model to capture significant market opportunities. GSMFEL has revolutionized the way that its 276 franchisees practice business and serve their customers, yet has not been able to translate their value-add into a profit stream. This chapter will discuss the internal and external challenges that have badgered GSMFEL's financial sustainability and the corresponding opportunities for GSMFEL to surmount these obstacles.

4.1 Internal challenges

From the outset, GSMFEL has struggled to maintain a balance between its franchisees' demands and its own financial needs for sustainability. Given that the franchise cannot survive without the franchisees, GSMFEL has tended to favor the franchisees demands, but at a substantial cost. In its attempts to create and maintain franchisee relationships, the franchisor has struggled to establish a viable product mix, enforce its contracts, and establish profitable operations.

4.1.1 Establishing product mix

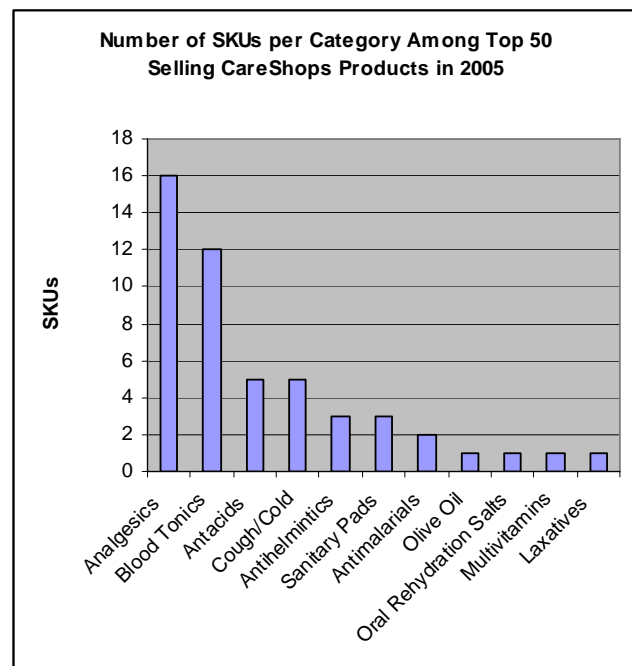
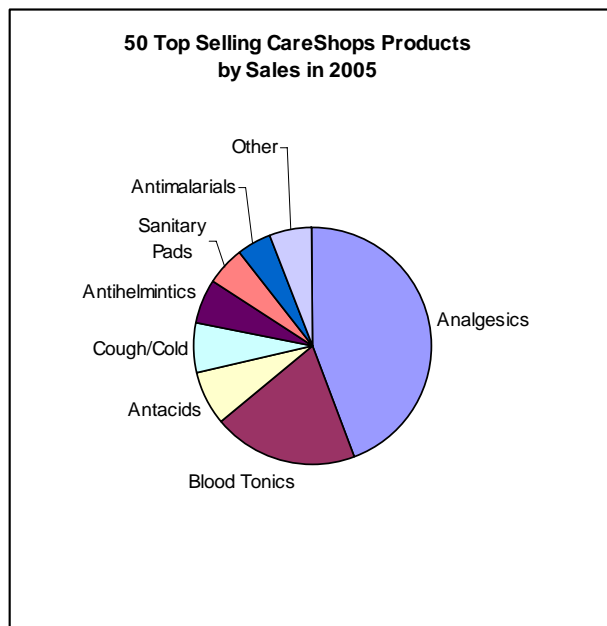
Establishing its product mix has been a struggle for GSMFEL since the recruitment of its initial franchisees. The GSMFEL business plan called for a standardized product list across all franchisees to streamline the supply chain and increase the franchisor's bargaining power with vendors. GSMFEL soon learned, however, that most LCS were adamant that GSMFEL delivers to them the same brands they were already stocking. The reasoning is that customers frequently enter a drugstore with the purpose of buying a specific brand of medication and sometimes even bring an empty box of the medicine that they plan to buy. LCS who do not stock the desired brand frequently lose the business. This created immediate difficulties for GSMFEL. In a market where there can literally be tens of competing brands of aspirin, it is extremely challenging to carry every brand that every franchisee requests. Nevertheless, thorough inventory coverage was a condition of conversion and continued participation for most franchisees, forcing GSMFEL to carry a far larger array of products than planned. While GSMFEL had intended to limit its initial catalog to 47 products, potential converts and franchisees demanded over 450

products, which forced GSMFEL to open accounts with more than 30 suppliers. With a larger number of products came smaller purchase volumes, and thus less significant discounts for the franchisor from the manufacturers.

The resulting product mix was far from optimal from both healthcare and inventory management standpoints. In 2005, the top 50 selling items from the GSMFEL catalog spanned 11 therapeutic categories and were heavily dominated by analgesics (see Figure 2). Among the 50 top selling items alone, GSMFEL was carrying 16 different versions of analgesics (see Figure 3).

Figure 2: Product categories of CareShop's 50 top selling products, 2005 (left)

Figure 3: Stock keeping units per product category among 50 top selling products, 2005 (right)



Despite GSMFEL's efforts to meet customer demand, the franchisor draws the line at products which are not approved by the Ghana Food and Drug Board (FDB). Roughly 50% of all LCS illegally carry products that do not have FDB registration, partially because radio spots advertise unregistered medicines extensively, creating high consumer demand. A 2005 MSH study found that CareShop are also subject to this pressure, and roughly 39% of CareShop franchisees carried some items without regulatory approval.³⁵

³⁵ Strategies for Enhancing Access to Medicines Program, "Ghana: Creating a Franchise System for Drug Sellers—CareShops" (February 2007).

Box 2: Blood tonics

In Ghana, herbal preparations known as “blood tonics” are extremely popular and 76% of LCS consider them vital to their business. Usually packaged in a glass bottle and dispensed by the spoonful, blood tonics are indicated for everything from malaria to stupidity. A popular preparation known as “Mighty Power,” for example, is indicated for “sexual weakness, back pain, hair loss, blood purification, poor vision, dizziness, numbness,” yet the only ingredients are water, honey, and a smattering of herbs and spices. For decades, even Guinness Stout, a popular beer, was dispensed by Ghanaian drugstores as a blood tonic. Today, the beer has been repositioned from the country’s pharmacies to its bars, but belief in its purported health effects lingers. This might partly explain why Ghana remains the sixth largest market for Guinness in the world.

Despite their somewhat miraculous product claims, blood tonics are approved by the Ghana Food and Drug Board and appeal to retailers and customers for financial reasons. Blood tonics are among the lowest cost and highest margin products LCS carry. GSMFEL distributes a wide range of blood tonics as a financial and political necessity. We interviewed franchisees who routinely sell blood tonics to their customers and who explained that they typically recommend more orthodox medicines first but will sell blood tonics to customers who request them. For malaria, in particular, LCS recommended that patients not rely on blood tonics alone.

4.1.2 Supply chain exclusivity

Although the CareShop contract stipulates that franchisees should only buy drug products from GSMFEL, this has always been a challenge to enforce. In fact, GSMFEL financial statements suggest that franchisees have purchased a substantial share of their inventory from competing suppliers throughout CareShop’s years of operations. According to the pro forma franchisee income statement above (Table 3), an LCS could expect to purchase around \$11,814 worth of products annually. However, even in GSMFEL’s best year, 2004, it was only supplying around 15% of its franchisees’ total product purchases. Table 4 estimates GSMFEL’s average per customer sales by dividing annual turnover by GSMFEL’s number of customers (see Appendix A).

Table 4: Average annual per customer sales (GH¢)

Year	2003	2004	2005	2006	2007
Sales per customer (CareShop and Allied)	1,403	1,451	1,019	929	298

The lack of supply chain exclusivity profoundly influenced GSMFEL’s financial performance because GSMFEL would incur all the fixed costs of operating a full-fledged distribution service while only capturing 15% of the potential revenue from product sales. Compounding their financial troubles was the fact that franchisees were rarely paying GSMFEL on time if at all. As of June 2007, approximately 75% of franchisees were carrying outstanding balances.

GSMFEL has little leverage over franchisees to rectify these contractual transgressions. Without being able to offer marked product discounts, GSMFEL does not have a clear advantage over competing suppliers, and franchisees have no reason to discard the relationships with suppliers that they had developed prior to their conversion.

4.1.3 Organizational culture change

As a pioneer of the for-profit conversion franchising format, GSMFEL faces the challenge of formulating its own and reshaping its franchisees' way of doing business.

As with any startup enterprise, GSMFEL's success depends heavily on being able to develop an internal culture geared toward sales generation and cost minimization. While GSMFEL has benefited greatly from GSMF's in-kind support, working in close quarters with a non-profit organization has created some unique challenges for GSMFEL. In Ghana, foreign-funded nonprofits frequently offer better salaries than do private sector companies. Though GSMFEL planned to offer private sector wages, its co-location with GSMF created intense pressure for GSMFEL to match GSMF pay scales and benefits even when CareShop revenue may not have merited such a decision. Close ties to the nonprofit world, therefore, may have made it politically infeasible for GSMFEL to maintain the leanest possible operations.

With franchisees, GSMFEL's challenge is to transform their business practices in fundamental ways. While franchisees embraced changes that produced immediate results, such as improving their stores' appearance or sales techniques that increased revenue, franchisees resisted contractual requirements that require habit changes but do not yield direct gains.

One clear example, discussed above, is that franchisees did not seem to value GSMFEL's door-to-door delivery service as much as planned. Alex Banful, Managing Director of GSMF, observed of LCS who had traveled to Accra prior to CareShop conversion, "It is a habit they claim to detest, but once it is gone, they realize that they do not actually hate it."³⁶ After conversion, it seems some LCS preferred to continue their travels to town, an indication that acceptance of GSMFEL's delivery service depends not only on its convenience factor, but also on LCS' willingness to break old habits.

Other GSMFEL prescriptions that franchisees resisted include having the LCS in frequent attendance rather than assistants, keeping up-to-date sales records, and following CareShop's patient counseling protocol. Some franchisees also felt ill at ease with CareShop field supervisor visits, which seemed to remind franchisees of confrontational Pharmacy Council audits. This discomfort might have impeded GSMFEL's ability to standardize service delivery across the franchise, had GSMFEL been able to finance continued field supervision.

4.2 External challenges

GSMFEL operates in a highly competitive market and a regulatory environment that is at once weak and restrictive. Ghana's recent launch of the National Health Insurance Scheme further complicates CareShop's outlook.

4.2.1 Competition

GSMFEL faces competition from a number of wholesalers and manufacturer wholesalers, some of which make sales to LCS who come to their urban warehouses, and others of which make direct sales to chemical shops out of delivery vans. GSMFEL's stiffest competition comes from manufacturer wholesalers that have wide leeway to adjust their prices quickly in response to market forces. In a matter of months after CareShop's launch, field supervisors were observing that competitors with delivery vans were slashing their prices to undercut GSMFEL. Ironically, some of GSMFEL's competitors are also its vendors. Although GSMFEL framed its relationships with Ghanaian manufacturers as a partnership,

³⁶ Alex Banful, interview by Joel Segre and Julia Tran, November 12, 2007.

several of its vendors have proceeded to sell directly to CareShop franchisees the same products they had sold to GSMFEL.

As noted by Alex Banful, GSMF Managing Director, transforming the business attitude of pharmaceutical manufacturers in Ghana is one of GSMFEL's main challenges. GSMFEL founders had expected that manufacturers would recognize the value proposition that GSMFEL offered—namely, consolidated sales to a network of chemical sellers with vast and rapid growth potential. GSMFEL had not anticipated the manufacturers' resistance to offering more favorable discounts, let alone that manufacturers would view GSMFEL as a threat.

4.2.2 The role of government

Pharmaceutical regulation: Drug class restrictions could very well be a factor in why GSMFEL is not its franchisees' sole drug supplier. While GSMFEL emphasized in training sessions that regulations bar chemical sellers from selling class A and B drugs, there remains a possibility that franchisees continue to carry a limited set of these drugs. GSMFEL legally cannot and does not distribute class A and B drugs to chemical sellers, but it would not be difficult for franchisees to find other suppliers that do. With existing drug class restrictions in place, it may not be financially viable for a law-abiding distributor to serve chemical sellers exclusively.

One significant barrier to a broadening of drug dispensing rights for LCS is resistance from pharmacists, who have clear incentives to maintain their status as the sole legitimate dispensers of class A and B drugs. While the Pharmacy Council recognizes that LCS play prominent roles in maintaining the health of rural communities, the Council is actively encouraging pharmacists to consider operating in rural locales.

Contract enforcement: The Ghanaian legal system is not equipped to aid GSMFEL in enforcing its contracts with franchisees. Pursuing each of its numerous small claims would be too costly and time intensive a process for GSMFEL, a reality that may have abetted franchisees' reluctance to settle their debts. To date, GSMFEL has only revoked the right to its branding from two franchisees for unethical practices or delinquent payments, possibly because the costs of enforcement are so high.

4.2.3 National Health Insurance Scheme

Ghana's recent launch of a national health insurance scheme has unclear implications for CareShop franchisees. Patients enrolled with the NHIS may use their insurance card as payment only at accredited providers, and most CareShop outlets are not yet accredited. Some franchisees fear that without accreditation they will lose customers to competing shops and formal health providers. Others, however, are reluctant to participate in NHIS for two reasons. First, the NHIS scheme will reimburse providers at fixed prices regardless of cost and currency fluctuations. Second, they anticipate that the bureaucracy of the NHIS would likely postpone payment for CareShop products, further lengthening the cash conversion cycle at the franchisee level. This could further exacerbate GSMFEL's collections problems.

4.3 Opportunities

While the above challenges have created some difficulty for GSMFEL, they are also hard-won lessons and are valuable as a roadmap for turnaround strategies. If GSMFEL is able to secure a cash infusion to re-launch CareShop operations, we recommend the following strategies as ways for GSMFEL to reformulate its value proposition to customers and franchisees and increase its revenue earning potential.

4.3.1 Stimulating consumer demand through brand building

Customer demand for specific brands and products has profoundly shaped GSMFEL's current business operations. Rather than allowing consumer demands to determine its strategies, however, we advocate that GSMFEL take a stronger stance in shaping consumer demands.

Mass marketing: As an offshoot of Ghana Social Marketing Foundation, GSMFEL has unparalleled access to GSMF's 9-year history of leading several of Ghana's most successful behavior change campaigns. Using GSMF's product promotion techniques, GSMFEL could shape product demand at individual CareShops through fliers, billboards, radio spots, and other proven techniques.

Creating a branded, exclusive product line: The establishment of an exclusive, private label product line could significantly increase GSMFEL's ability to influence consumer demand. First, private label products could command higher margins for both the franchisor and franchisee. Second, they would be a powerful incentive for franchisees to maintain the exclusivity of the supply chain (and an obvious indicator when they did not). Third, a private label product line would help GSMFEL to keep its number of stock keeping units (SKUs) under control. Fourth, a branded line would help to build the franchise brand. Finally, a branded product line would allow GSMFEL to choose and promote the "best in class" drug for each therapeutic class. For example, in the case of malaria drugs, franchisees have been ordering chloroquine, sulfadoxine/pyremethamine, and artemisinin monotherapies. Given the high levels of resistance to the first two, and the dangers of resistance to the third, CareShop could package an artemisinin combination therapy as the "CareShop" brand. As the parasite's resistance changed over time, CareShop could also change the active ingredients of its offering without changing the promotion or brand. Over time, this could build brand loyalty and improve health impact together.

Building brands, however, is no easy feat. Customers are often loyal to particular brands of medication that have been effective for them. They will enter a drugstore knowing exactly which brand they wish to buy, and frequently will not accept substitutions. Since customers often develop loyalty to brands they first purchase from public hospitals, sales to the public system can be an effective way to establish a new brand. Yaw Gyamfi, CEO of DanAdams, a local pharmaceutical manufacturer and GSMFEL supplier, notes that public sector sales have been instrumental in his ability to build the DanAdams brand.³⁷ Should GSMFEL launch its own product line, it may wish to consider a similar strategy.

Cultivating brand prestige: Another way to build brand is through the proliferation of the franchised stores themselves. Since GSMFEL operates primarily in peri-urban areas, the CareShop name is virtually unknown within urban Accra. Just as McDonald's and other franchises establish "prestige" shops designed to build the brand, GSMFEL could experiment with a CareShop in Accra's up-market Osu district. Association with the ritziest area of the country could increase the value of the brand.

Standardizing product prices: Standardized, transparent pricing would present substantial value to customers who usually pay prices left to the discretion of the LCS, and would go far in strengthening the reputation of the CareShop brand. While franchisees might initially resist attempts by GSMFEL to standardize retail pricing, GSMFEL may have more leverage in this matter if the CareShop franchise brand became valuable enough to franchisees and if profit margins on these products were fair. GSMFEL would also have more leeway in setting prices for CareShop branded products and may consider printing prices directly on such a product line.

³⁷ Yaw Gyamfi, interview by Joel Segre and Julia Tran, November 16, 2007.

4.3.2 Reformulating value propositions to franchisees

In a business environment with a weak contract enforcement system, contract compliance depends heavily on having in place strong financial and social incentives for compliance. Under current franchising arrangements, CareShop's primary attractions for franchisees are its high-value training and branding materials, both of which franchisees receive upon conversion at relatively low cost. While GSMFEL had intended that its distribution service would present another significant draw for franchisees, this was not to be the case because GSMFEL was unable to compete with competitors on pricing. In sum, franchisees have little to lose in both opportunity cost and financial terms by not complying fully with the CareShop franchising agreement.

Offering franchisees exclusive, desirable, and ongoing services may improve their cooperation. A strong franchise brand and product lines are examples of such services. The following are additional suggestions for consideration.

Arranging working capital financing: In a 2003 LCS franchising feasibility study, 200 independent LCS were asked to describe benefits they would expect if they were to enter into a franchising arrangement. The number one expected benefit was financing support from the franchisor. Two out of three of the LCS had financed their shop out-of-pocket, and very few had been able to use loan capital to open their shops. Most of the LCS indicated that a lack of financing was their primary barrier to business growth.³⁸ Franchisees whom we interviewed reiterated to us their desire for loan financing in order to expand their product offerings and generate more revenue.

While microloan financing is clearly outside GSMFEL's core competencies, there could be ways for GSMFEL to partner with a microfinancing organization or other banking entity and offer small loans to its franchisees. Sharing a microloan between a few franchisees would add "social insurance" against delinquent payments, and enabling access to small loans could give GSMFEL considerable leverage with franchisees who default on drug payments.

Supplying new health technologies: At the time of this case study's release, several health technologies intended specifically for low-income markets are in the late stages of development. On the horizon is a "lab-on-a-card" device that is meant to be administered by health workers with minimal training in low-resource regions and that can offer inexpensive, fast diagnoses of diarrheal and rapid-onset fever illnesses.³⁹ Also under testing is an asthma spacer, a device necessary to administer asthma medication to small children, that will have a production cost of about 25 cents.⁴⁰ Becoming the first distributor of such products in Ghana may help GSMFEL to bargain supply chain exclusivity with franchisees.

Ongoing training opportunities: Among the above mentioned 200 LCS interviewees, the second most expected benefit of franchising was education on drugs, health issues, and other pertinent subjects. Breaking up and spreading the CareShop training curriculum over months or a couple years, and offering refresher courses and seminars may help to keep franchisees invested in maintaining a strong working relationship with GSMFEL. Ongoing training would also continually improve and reinforce franchisees' dispensing and patient counseling practices. A 2005 study by Management Sciences for Health found that only 18% of trained CareShop facilities dispensed malaria drugs exactly according to treatment guidelines, compared to 10% of non-franchised shops. While the probability of correct treatment is almost twice as high at a CareShop, there is still much room for improvement.

³⁸ Ghana and Project Orchids, "Market Study."

³⁹ PATH, "PATH: Microfluidics card," http://www.path.org/projects/microfluidics_card.php.

⁴⁰ Eric Green, "Respira!: An Extremely Affordable Device for Better Asthma Care," *Changemakers.net*, Ashoka, <http://www.changemakers.net/en-us/node/1389>.

Franchisees' willingness to pay for training should also be rigorously assessed. Collecting fair training fees from franchisees would not only help to ensure the financial viability of the training, but would also increase the value of the training in franchisees' eyes.

Converting franchises into pharmacies: LCS are currently operating in a regulatory environment without the resources to prosecute illicit sales of class A and B drugs, and in a health system where a short supply of medical professionals makes it profitable to sell these classes illegally. Many LCS therefore choose to take on the risk of stocking non-OTC drugs, but this is a losing situation for all parties. LCS constantly face the threat of closure and bear the weight of potentially harming their customers by dispensing these drugs incorrectly. Customers may not receive the right medicine or the counseling they need on how to take their medicine. GSMFEL, as a law-abiding distributor to its franchisees, is not able to secure its franchisees' supply chain and could be losing a potentially significant portion of its franchisees' drug purchases. Given these concerns and that, in the long run, the Pharmacy Council will have the resources to control illegal drug sales, it may be worthwhile to consider the feasibility of converting some or all CareShop franchises into pharmacies.

According to Pharmacy Council regulations, pharmacies need to be attended by a pharmacist on only a part-time basis. Many pharmacists, therefore, open several pharmacies and rotate between them. GSMFEL could conceivably hire pharmacists to rotate between several of its franchises. In a short time span, this strategy could transform CareShop into Ghana's largest pharmacy chain and a lucrative customer account for any wholesaler.

Chapter 5

What Works

CareShop's story contains critical lessons for those working to improve access to basic medicines in low-income countries with a fragmented, unregulated private health sector. In many such countries, small drug stores, financed and run by laypersons like Ghana's chemical sellers, are the frontline providers of basic medicines to low-income communities. These providers often have poor access themselves to a dependable supply of quality drugs and to health education. CareShop has demonstrated that there is ample demand among these providers for business and health training, and for the means to provide a broad array of essential drugs to their customers. In answering these demands, CareShop improved the availability of essential medicines for countless Ghanaians and transformed the providers' way of doing business.

Over its few years of operation, GSMFEL was able to distribute an enormous volume of essential drugs and preventatives through the CareShop franchise. GSMFEL stocked LCS shelves with upwards of 60,000 units of malaria medication, 60,000 units of de-worming medication, 4,900 units of oral rehydration salts, and 870,000 condoms. Quality of life drugs that passed through GSMFEL's warehouse include over 900,000 units of analgesics, 35,000 units of antacids, and 175,000 units of cold and flu medicine. At a minimum, these drugs testify to GSMFEL's role in improving the availability of high quality, FDA approved drugs in its areas of operation.

GSMFEL's enduring value to franchisees, and possibly the chemical seller industry at large, is in its training. CareShop training was transformational for many franchisees and led them to improve every aspect of their business, from store infrastructure to business administration practices, to customer service and patient counseling skills. Many franchisees found enough value in the training courses to bring along their children and other family members who assist at their shops.

GSMFEL's pioneering focus on LCS training may have broadened the government's awareness of the importance of improving healthcare in Ghana by educating its chemical sellers. According to GSMFEL's managers, once GSMFEL demonstrated the LCS' appetite for training, their willingness to pay for it, and its profound effects on LCS business practices, the Pharmacy Council took notice. In late 2006⁴¹ and 2007,⁴² the Pharmacy Council launched three-month training programs for thousands of both new and

⁴¹ Samuel Opare, "Chemical Sellers Undergo Training," *NewTimesOnline.com* (5 October 2006). Available from: http://www.newtimesonline.com/index.php?option=com_content&task=view&id=5367&Itemid=208.

⁴² Ghana News Agency, "Asante Akim North: Pharmacy Council Trains Chemical Sellers," *GhanaNation.com* (16 July 2007). Available from: <http://news.ghananation.com/templates/?a=3073&z=2>.

currently licensed chemical sellers. It is likely that in launching these programs, the Council took into consideration the success of CareShop training, given the Council's close communication with GSMFEL on this topic. With time, the Council's new initiative has the potential to transform LCS across Ghana into a safer and more effective delivery channel for essential drugs.

For organizations seeking to effect behavior change among disparate drug retail entrepreneurs like Ghana's LCS, CareShop's conversion franchising format is a worthwhile strategy to consider. Though incentives for contract adherence by conversion franchisees must be finely calibrated, CareShop proved this business format to be a successful vehicle for the delivery of behavior changing business and health education. Delivering training through conversion franchising offers a few unique advantages. First, the franchisor as trainer is able to present strictly defined guidelines to franchisees, rather than general education on business and dispensing practices. Prescribing clear guidelines gives the trainer more control over quality standards and simplifies implementation for the trainees. Second, offering training only to franchisees confers to the training an exclusivity that stimulates demand for it among neighboring LCS. Members-only training created a virtuous cycle of conversion for CareShop that decreased the costs of recruitment and training per franchisee over time. The cost of recruitment decreased as the number of franchisees grew and increasing brand presence on main highways and word-of-mouth advertising signaled a conversion trend to potential franchisees. At the same time, franchisees became increasingly willing to pay higher training fees and cover a greater share of GSMFEL's training related expenditures.

The furthest reaching lessons of the CareShop experience relate to the catalytic role that a social enterprise can play in raising quality standards and lowering prices in the health sector by increasing competition. GSMFEL's shops represented a small proportion of all LCS in their areas of operation, yet they had a noticeable, positive effect on the LCS industry overall. CareShop restored pride and competitiveness not only to its franchisees, but arguably to non-franchised LCS as well. When a CareShop came to town, non-franchised LCS made efforts to improve the appearance of their shops and improve their services as a way of keeping up. Some even repainted their stores in CareShop colors. Observations from field supervisors and franchisees suggest that GSMFEL also induced its wholesaler competitors to lower their prices soon after it began service in CareShop regions. Competitors' responses to CareShop indicate that the entrance of a socially responsible, quality oriented enterprise can precipitate swift pricing and service delivery improvements in largely uncompetitive private sector pharmaceutical markets.

CareShop's impacts on the quality of drugs and services available to its customers, on its franchisees' way of doing business, and on the LCS business landscape represent only the beginning of what is possible through the work of a socially minded enterprise. Handicapped by insufficient seed capital and an unfavorable operating environment, CareShop has nonetheless revealed the capacity of drug retailers and wholesalers to improve through training and competition, respectively. CareShop operates under the assumption that all Ghanaians should have ready access to high quality, affordable treatments for the common infectious diseases that badger the country. With greater investment and effort into strengthening Ghana's extensive but low-resource private drug sector, this vision can become reality.


Appendix A: GSMFEL Income Statements, 2003-2007⁴³

GSMFEL Income Statement: 2003-2007 (GH¢)					
Year:	2003	2004	2005	2006	2007
Customers	55	169	319	370	374
Turnover	77,162	245,190	325,142	343,648	111,404
Operating Costs					
Cost of Goods Sold	67,667	223,126	295,618	315,737	101,873
Consulting Fees	9,149	4,058	1,925	1,335	0
Accommodation and Meals - Trainees	11,947	15,969	9,680	5,471	0
Travel - Training	6,646	5,767	4,008	816	0
Selling & Distribution	1,560	5,740	10,715	16,466	7,934
Travel - Prospecting	1,363	0	755	0	0
Travel - CareShop Supervision	771	1,257	205	558	162
Printing & Stationery - CareShop Training	914	1,315	984	200	600
Printing - Cash Register	557	0	0	0	0
Registration & License	0	0	598	285	325
CareShop Launch	0	12,778	0	0	0
Discount Allowed	0	0	0	283	0
Total Operating Costs	100,574	270,010	324,487	341,151	110,893
Gross Profit	(23,412)	(24,820)	655	2,497	510
Other Income					
Discounts Received	578	7,283	8,000	14,391	4,292
Grant Income - DFID (BLCF)	33,034	77,134	22,662	8,489	0
Grant Income - MSH	98,313	42,600	22,544	0	0
Grant Income - Population Council	0	7,680	13,219	4,468	0
Sundry Income - Others	89	8,524	13,209	3,000	1,500
Sundry Income - Training Fees	3,495	992	4,689	2,085	0
Exchange Gain	608	2,671	1,691	2,668	0
Total Other Income	136,116	146,883	86,013	35,101	5,792
Administrative & General Expenses	114,761	158,154	206,343	110,172	28,480
Profit/Loss before Interest & Tax	(2,057)	(36,091)	(119,676)	(72,575)	(22,177)
Interest on Borrowing	0	0	0	27,145	10,456
Taxation	0	0	0	0	0
Net Profit after Taxation	(2,057)	(36,091)	(119,676)	(99,720)	(32,633)
Income Surplus at Period End	21,502	(14,589)	(134,265)	(233,985)	(266,618)

⁴³ This table is a compilation of GSMFEL's annual income statements. Audited income statements for the period 2003-2005 were prepared by Deloitte and Touche. Figures for 2007 account for the months of January-June.

Appendix B: CareShop Franchisee Profiles

 <p>The photograph shows two individuals standing in front of a storefront. The person on the left is a man wearing a white apron over a light-colored shirt. The person on the right is a woman wearing a white lab coat over a light-colored dress. Above the entrance is a sign that reads: "ROSE KAADE APREKU PC/CS/ER/01514 LICENSED CHEMICAL SELLER C/O OROKOMASE PHARMACY COMPLEX BOX 126 ABUJIBI, (EYE YESU ABONG)". The storefront has blue panels on either side of the entrance.</p>	<p>Rose Kaade Apreku</p> <p>Upon the completion of primary school, Ms. Apreku worked on her family farm prior to saving enough money to start her own licensed chemical shop. She estimates that it cost \$300 to open her shop. Ms. Apreku explained that the CareShop franchise drastically improved her business in several ways. First, she is able to advise her customers more confidently on the nature and appropriate treatment of their afflictions. Second, she is able to offer her patients better customer service through complementary selling techniques. Lastly, she is able to track her sales and pricing using a ledger. Ms. Apreku's sales are five times higher than they were prior to conversion, and she runs the store from 7 am to 10 pm every day with the help of Adams, her son (also pictured).</p>
<p>Kofi Asiam</p> <p>Mr. Asiam inherited his chemical shop, a converted space attached to his home, from his father and was a licensed chemical seller for nearly 20 years prior to his conversion to CareShop. Commenting on the difference between his business before and after conversion, Mr. Asiam notes, "It is a tremendous difference. CareShop has enlightened us. Our customers now see our place as a beautiful place." During his renovation process, Mr. Asiam spent roughly \$200 on improvements, which include ceiling fans, a refrigerator, and glass display cases. These are important differentiators because Mr. Asiam has four competing LCS within his a kilometer of his own shop.</p>	 <p>The photograph shows a man in a blue t-shirt standing behind a counter in a shop. He is looking down at a document or ledger on the counter. The background is filled with shelves stocked with various products, including boxes and bottles, typical of a chemical or pharmacy shop.</p>

 A photograph of Anastas Asare, a CareShop franchisee, standing behind a counter in his store. The store is well-stocked with various products, including boxes of tissues and other household items. A computer monitor is visible on the counter.	<p>Anastas Asare</p> <p>Having run a chemical shop for only three years prior to CareShop, Mr. Asare made major changes to his business after he completed CareShop training. Today, he arranges his products by therapeutic class and stocks the shelves by expiration date. He has also improved his inventory management and customer care practices. He estimates that CareShop training doubled his revenue. In recognition of Mr. Asare's outstanding performance, GSMFEL awarded him with a computer, prominently displayed on the front desk, which Mr. Asare claims to be a valuable tool in growing his business. He explains, "The customers see the computer and they know we are a modern shop."</p>
<p>Benjamin K. Donkor</p> <p>Mr. Donkor worked in the retail drug business for 22 years as a pharmacy assistant before he opened his own chemical shop 15 years ago. He joined CareShop in 2004, after being convinced by a free training session. CareShop training inspired him to renovate his store extensively and he spent upwards of \$500 to install glass shades, floor tiling, and fans, among other improvements. CareShop training has also improved his ability to recommend treatments for common ailments, and to refer patients with more serious conditions to health facilities. He notes that putting CareShop training into practice has helped him gain the trust of his community, build his customer base, and improve store sales.</p>	 A photograph of Benjamin K. Donkor, a CareShop franchisee, standing in his store. He is wearing a white polo shirt with a CareShop logo. The store is filled with shelves of various products, including boxes and bottles of medicines and household items.



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