

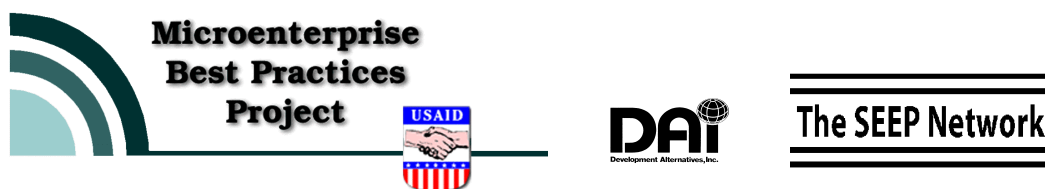
SME MARKETING PROGRAMS: TRENDS, LESSONS LEARNED, AND CHALLENGES IDENTIFIED FROM AN ANALYSIS USING THE BDS PERFORMANCE MEASUREMENT FRAMEWORK

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by

Mary McVay

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List of Acronyms

NOTE: The original, full-length version of this paper is available on www.seepnetwork.org. The full version of those case studies sponsored by the Donor’s Committee, and other relevant BDS analytical works used to prepare this paper, can be found on www.ilo.org.

ACDI/VOCA	American Cooperative Development International and Volunteers in Cooperative Assistance—a U.S. based nonprofit organization managing the Malawi tobacco farmers’ project profiled in this study
AFE	Action for Enterprise—a U.S. based nonprofit organization supporting the INDEPCO, the association of garment makers in Haiti
AgReform	Agricultural Reform program of CARE Egypt profiled in this study
AMKA	Kiswahili word for “awaken” or “awareness”—Tanzanian export development program profiled by the Donors Committee
ATO	Alternative Trade Organizations—organizations established to develop marketing channels for products made in developing countries by workers receiving a fair wage
BDS	Business Development Services—any support for the development of micro-, small-, and medium-sized enterprises, other than financial services
CARE	Cooperative Assistance and Relief Everywhere—an international cooperative organization that manages the AgReform program and a co-sponsor of this study
CAPART	Council for the Advancement of People’s Action and Rural Technology—the Indian government agency responsible for the Gram Shree Mela markets profiled in this study
CLUSA	Cooperative League of the USA—a U.S. based cooperative development organization
Donor’s Committee	Committee of Donor Agencies for Small Enterprise Development
FIT	Farm Implement and Tools program—an action research program of the ILO profiled by the Donor’s Committee
GSM	Gram Shree Mela—a project that organizes markets for rural products in India profiled in this study
IDB	Inter-American Development Bank
ILO	International Labor Organization
INDEPCO	<i>L’Institut National pour le Développement et la Promotion de la Couture</i> —an association of garment makers in Haiti profiled in this study
ISEP	International Small Enterprise Programme of the ILO
MART	Marketing Action Research Team—a consulting group that advised the development of the Gram Shree Mela markets profiled in this study
MBP	Microenterprise Best Practices—a global research project to capture current trends and innovations in the field of microenterprise development, managed by Development Alternatives, Inc. and funded by USAID

MEDA	Mennonite Economic Development Agency—a U.S.-based nonprofit organization that initiated several marketing cases profiled by the IDB and the Donor’s Committee, PROARTE in particular, discussed in this study
MicroNet	A project proposal in Jamaica for mass marketing generic BDS profiled by the Donor’s Committee
MSE	Manikaland Subcontracting Exchange—a business linkage program in Zimbabwe profiled by the Donor’s Committee
NGO	Non-governmental organization
PCS	Promotora de Comercio Social—a nonprofit marketing organization in Colombia profiled by the Donor’s Committee
PROARTE	A private, for-profit marketing and craft exporting company in Nicaragua initiated with support from MEDA, and profiled by the IDB and Donor’s Committee
PROEXSAL	<i>Sociedad Cooperativa de Productores y Exportadores del Salvador de R.L.</i> —a marketing cooperative in El Salvador that helps smallholder farmers market organic produce, works in conjunction with CLUSA
SEEP	The Small Enterprise Education and Promotion Network—an association of U.S.-based nonprofit organizations that support microenterprise development around the world and a co-sponsor of this study
SADP/NASFAM	ACDI/VOCA’s Smallholder Agribusiness Development Program for support of Malawian tobacco farmers, an organization that initiated the National Smallholder Farmers’ Association of Malawi, which now manages activities and programs initiated by SADP
SME	Micro-, small-, and medium-sized enterprises
SNV	<i>Stichting Nederlandse Vrijwilligers</i> —Netherlands Development Organization
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
Ziwa	A marketing enterprise which grew out of a nongovernmental product development and training organization in Western Kenya, and which works in partnership with an NGO that provides significant product development and training support

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ABSTRACT

The cases used in this study, sponsored by SEEP, CARE International and USAID/DAI's MBP project, include marketing programs volunteered by four SEEP members: Action for Enterprise in Haiti, ACDI/VOCA in Malawi, MART in India, and CARE in Egypt. Other marketing cases were drawn from papers presented at recent conferences in Zimbabwe (1998) and Brazil (1999), sponsored by the Committee of Donor Agencies for Small Enterprise Development (Donors Committee). The study uses the BDS Performance Measurement Framework to compile trends, lessons learned, and challenges facing BDS practitioners who help SMEs and smallholder farmers gain access to markets for their products and services. The programs fit into three program models: marketing businesses, marketing services providers, and market infrastructure developers.

The surprising findings regarding program performance and the practical tips observed from analyzing better performance, illustrate the power of using the PMF to compare and analyze BDS programs. Given that the cases were compiled and the study conducted prior to the current version of the PMF being developed, the cases lacked many specific indicators called for by the PMF, particularly market development indicators. Nevertheless, simply organizing existing data into the framework revealed interesting and sometimes surprising observations about performance, such as:

- Programs focusing on market infrastructure development reach larger scale.
- Reaching the poor is a matter of choice, not sustainability.
- Larger programs seem to have less intense impact on clients.
- Cost-effectiveness is not related to scale or program model.
- Marketing businesses reach sustainability more easily, but other strategies are evolving.
- Smaller programs reach sustainability more easily.

In addition, although only one program explicitly set out to develop a BDS market, all programs analyzed in this study, and the lessons learned that emerged, support the relevance of the market development paradigm for designing successful BDS programs.

SME MARKETING PROGRAMS: TRENDS, LESSONS LEARNED AND CHALLENGES IDENTIFIED FROM AN ANALYSIS USING THE BDS PERFORMANCE MEASUREMENT FRAMEWORK

The cases used in this study, which was originally commissioned by SEEP and funded by CARE International, include marketing programs volunteered by four SEEP members: Action for Enterprise in Haiti, ACDI/VOCA in Malawi, MART in India, and CARE in Egypt. Other marketing cases were drawn from papers presented at recent conferences in Zimbabwe (1998) and Brazil (1999), sponsored by the Committee of Donor Agencies for Small Enterprise Development (Donor's Committee). The study uses the BDS Performance Measurement Framework¹ to compile trends, lessons learned, and challenges facing BDS practitioners who help SMEs and smallholder farmers gain access to markets for their products and services. The findings hold implications for the market development paradigm.

PROGRAM DESCRIPTION

The programs share the common goal of helping smallholder farmers, or micro-, small- or medium-sized businesses (hereafter referred to as SMEs) gain access to markets. The programs documented in this study fall into the following three program models:

1. Marketing Businesses. Marketing businesses purchase products from SMEs and sell them at a markup. These “sellers” or “marketers” often also offer their clients market research, product development, training, input supply, and access to technology services. Examples of marketing businesses include the following:

- *INDEPCO*. This urban garment producers' association in Haiti subcontracts government uniform production to its members, who are low-income, home-based tailors. INDEPCO also provides inputs, such as raw materials, and training to member subcontractors. INDEPCO has received minimal technical assistance from a US-base non-profit organization, Action For Enterprise, with support from USAID.
- *PROARTE*. This for-profit marketing and craft exporting company in Nicaragua was founded by the Mennonite Economic Development Agency (MEDA). While PROARTE also provides some inputs and product development to producers, it focuses primarily on marketing traditional Nicaraguan hammocks and pottery made by low-income rural producers.
- *PCS*. This nonprofit marketing organization in Colombia markets large volumes of daily use items domestically. The products, such as doormats and brooms, are made by urban, low-income producers. PCS provides services at almost every stage of the market and production cycles for at least four product sectors and has benefited from international investment from the Inter-American Development Bank.
- *PROXSAL*. This cooperative in El Salvador markets organic vegetables to specialty grocery stores domestically. PROXSAL works in partnership with the Cooperative League of the USA (CLUSA), which supports production while PROXSAL focuses on marketing. Services include providing refrigerated storage and transportation, as well as training buyers on how to handle organic produce. The vegetable producers are rural, smallholder farmers.
- *ZIWA*. This marketing enterprise grew out of a non-governmental organization (NGO) in Western Kenya that provides product development and training primarily for urban, informal sector

¹ Developed by USAID's Microenterprise Best Practices Project in collaboration with ILO's International Small Enterprise Programme (ISEP) and the Committee of Donor Agencies for Small Enterprise Development. The Performance Measurement Framework Guideline for the use of this framework, authored by Mary McVay, can be found on www.mip.org.

metalworkers. ZIWA works in partnership with an NGO that provides significant product development and training support and in turn receives its support primarily from DFID.

2. Marketing Service Providers. Marketing service programs offer services that help SMEs reach markets, but they do not sell products for them. The wide range of services these programs provide include information provision, training, and linking producers to buyers.

- *AgReform*. This CARE Egypt program helps smallholder farmers locate the information they need to increase productivity and identify market opportunities. AgReform helps smallholder farmers visit experts, suppliers, and potential buyers so they can develop long-term relationships and eventually access the information on their own.
- *AMKA*. This urban export development program in Tanzania serves a wide range of enterprise types and sizes.
- *FIT*. This action research effort by the International Labor Organization (ILO) action-research effort develops and tests new services for supporting or replicating private-sector initiatives so those initiatives can become financially sustainable. Specific services include enterprise tours, user-led innovations, and advertising papers that serve informal sector producers in both rural and urban areas. FIT is evolving into a market-infrastructure developer.
- *MicroNet*. This cutting-edge project in Jamaica works with private-sector investors to initiate a BDS company to serve microenterprises in any sector in urban areas and towns.
- *UNIDO and MSE*. The United National Industrial Development Organization subcontracting partnerships and the Manikaland Subcontracting Exchange (MSE) in Zimbabwe, link large-scale manufacturers with small-scale suppliers. UNIDO operates globally and MSE operates in Manikaland, a rural area of Zimbabwe where the timber industry dominates.
- *UNIDO Clusters and Networks*. UNIDO facilitates the development of groups of entrepreneurs in the same product sector and supports joint projects that help get products to market. The programs operate in several Latin-American countries and serve urban SMEs.

3. Market Infrastructure Developers. These market infrastructure programs develop market institutions aimed at helping SMEs access markets on a permanent basis.

- *GSM*. Gram Shree Mela in India organizes occasional market expositions, and features handmade rural products sold by NGOs and producer groups that receive government grants to assist the poor in income-generation activities. The Gram Shree Mela markets, which take place in urban areas throughout India, also offer workshops on product development, pricing, and marketing. NGOs, supported by the Indian government, are the primary participants in the market. They work with poor rural craftspeople to produce and market their products. Although the GSM program focuses narrowly on providing market festivals, its function is linked to the broader infrastructure of NGOs that assist rural producers. The Marketing Action Research Team (MART), a consulting firm in India, provided technical assistance in the design and implementation of this government-implemented program.
- *SADP/NASFAM*. The Smallholder Agribusiness Development Project (SADP) and the National Smallholder Farmers' Association of Malawi (NASFAM), together provide organizational development, technical assistance, advocacy, and information services to smallholder farmers through a network of 17 associations and 2,500 farmers' clubs that SADP helped establish. The project started working in the tobacco sector and is now helping smallholder farmers diversify to chilies, cotton, and other cash crops.

PERFORMANCE RESULTS

The study assessed program performance using a Performance Measurement Framework that attempts to use a common set of indicators to assess the performance of Business Development Services programs. Using the framework provides an opportunity to objectively compare program performance across a range of common goals and indicators. Nevertheless, limitations to the use of such a newly developed framework exist at this time. After data was collected for this study, the framework was significantly revised. In addition, the non-SEEP case studies were developed before any common BDS framework existed. Finally, the framework calls for assessing some cutting-edge goals and indicators that are not yet commonly used in BDS programs. Thus, the study does not always present data in comparable form across programs, and data for many indicators is unknown. Nevertheless, the act of simply organizing existing data into a common structure reveals many interesting and valid conclusions.

The framework is structured around the concept that business development services are a commodity and that the overall goal of any BDS program is to develop a sustainable, competitive, well-functioning market for the particular BDS service on offer. The framework outlines the following three sub-goals and indicator categories for this overall vision:

1. Program scale and outreach, measured by assessing the development of a BDS market;
2. Program sustainability and cost-effectiveness, measured by assessing the performance of the BDS supplier institutions; and,
3. Program impact on SME customers.

The following tables present the data collected from all the programs in the study. An analysis of the conclusions drawn and some comments and recommendations for the framework follow.

Performance Indicators for Donor's Committee Cases

GOAL 1: INCREASE OUTREACH (SCALE AND ACCESS)						
BDS MARKET DEVELOPMENT INDICATORS						
Objective	Indicators	PROEXSAL El Salvador, 1994	PROARTE Nicaragua, 1996	PCS Colombia, 1983	AMKA Tanzania	Ziwa Kenya, 1997
	Time in operation	5 years	3 years	16 years	Unknown	2 years as a company; 5 years as a project
Expanding the market for BDS	Market size: number of SMEs purchasing services (or accessing via other commercial transactions)*	Unknown	100	1,000	138	58
	Market size: amount of sales by BDS providers* (Sales to final customers, not to SMEs)	Annual sales of \$418,000 to \$680,000	Annual sales of around \$100,000	Net annual sales of \$3.4M	Unknown	Unknown
	Market penetration: percent of potential SME market reached with a BDS service	Unknown	Unknown	Unknown	Unknown	Unknown
Developing a high-quality, diverse, competitive market	Number of BDS providers*	1	1	1	1	1
	Number of BDS service types	6	4	6	1	2
	Well-distributed, wide price range for BDS	Unknown	Unknown	Unknown	Unknown	Unknown
	Average price for a unit of BDS (markup)	25% commission on gross sales	50% markup	Average markup, 11%	Unknown	33% profit margin
	Number and proportion of multiple-user customers in the market	Unknown	Unknown	Unknown	Unknown	Unknown
	Market distortion: average subsidy content of a BDS*	Unknown	Unknown	Unknown	Unknown	Unknown
Increasing access to BDS services by underserved groups	Extent of access: number and percent of SMEs that represent targeted populations	Unknown	Low-income; rural; 30% women	50% informal; low-income	SME exporters with between 4 and 446 employees	Microenterprises; few women
	Target market penetration	Unknown	Unknown	Unknown	Unknown	Unknown

* Should be reported for both the market at large and the providers assisted by the project. In these cases, the projects did not track the development in the market at large.

NOTE: BDS=business development services; SME=micro-, small-, and medium-sized enterprises

Performance Indicators for Donor's Committee Cases—continued

GOAL 2: SUSTAINABILITY AND COST-EFFECTIVENESS						
ASSESSING BDS SUPPLIERS						
Objective	Indicators	PROXSAL El Salvador, 1994	PROARTE Nicaragua, 1996	PCS Colombia, 1983	AMKA Tanzania	Ziwa Kenya, 1997
Suppliers' sustainability	Time in operation BDS supplier cost-recovery of operational costs from clients' fees	5 years Profitable	3 years Profitable on cash-flow basis; to start, received one-time grant of \$100,000; 1996 loss, \$63,212 post subsidy	16 years Covering operating costs since 1994	Unknown 5% cost-recovery in 1994 and 41% in 1997/98; 20% cost-recovery of services to producers	2-5 years 33% profit margin
Program cost-effectiveness	Simplified cost-benefit assessment comparing total program costs to aggregate program benefits for entrepreneurs Total program cost/customer served Total program cost/supplier assisted Total program cost/increase in suppliers' revenue	Unknown Unknown Unknown Unknown	Unknown Cost/artisan, \$10,000 Startup capital of around \$100,000 Unknown	Unknown Unknown Unknown Unknown	\$1 of AMKA investment generates \$2-3 in client income Cost/exporter, \$1,650 1994 total external grants, \$227,000 Unknown	Unknown Unknown Unknown Unknown
GOAL 3: IMPACT						
ASSESSING BDS CUSTOMERS, SMES						
Objective	Indicators	PROXSAL El Salvador, 1994	PROARTE Nicaragua, 1996	PCS Colombia, 1983	AMKA Tanzania	Ziwa Kenya, 1997
Increase customers' BDS acquisition	Time in operation Customer satisfaction with a BDS Repeat customers (percent of customers who buy more than once)	5 years Unknown Unknown	3 years Unknown Unknown	16 years Unknown Unknown	Unknown Unknown Unknown	2-5 years Unknown Unknown
Increase customers' BDS use	Percent of customers who improve business practices, as defined by the supplier	100% of customers made sales through the company	100% of customers made sales through the company; average sales/client, \$500/year	100% of customers made sales through the company; average sales/client, \$3,060/year	Sales growth among clients, \$1.1-\$1.2M; 75% of clients reached new markets	100% of customers made sales through the company
Increase customers' BDS benefits	Change in value-added (sales—raw materials)	Unknown	Unknown	Unknown	Client income grew by 2-6%	Unknown

Performance Indicators for SEEP Cases

GOAL 1: INCREASE OUTREACH (SCALE AND ACCESS)					
BDS MARKET DEVELOPMENT INDICATORS					
Objective	Indicators	INDEPCO Haiti, 1996	SADP/NASFAM Malawi, 1996	Gram Shree Mela India, 1989	AgReform Egypt
	Time in operation	3 years	3 years	10 years	3 years
Expanding the market for BDS	Market size: number of SMEs purchasing services (or accessing via other commercial transactions)*	300 members; 70 subcontractors; 80 trainees	40,000 members; 80% growth in 1998	100,000 producers	5,000 farmers
	Market size: amount of sales by BDS providers* (<i>Sales to final customers, not to SMEs</i>)	Subcontracted \$131,000 in 1998	Total volume of association business exceeds \$27M	\$4M cumulative; \$1M in 1997	Unknown
	Market penetration: percent of potential SME market reached with a BDS service	Unknown	Unknown	Unknown	Unknown
Developing a high-quality, diverse, competitive market	Number of BDS providers*	1 in the program	17 associations; 2,500 clubs	1,200 NGOs selling annually	1 provider
	Number of BDS service types	3: subcontracting, training, and input supply	6: training, transportation, storage, shops, advocacy, and inputs	2: provision of physical market space, training	1: facilitating information linkages
	Well-distributed, wide price range for BDS	Unknown	Unknown	Unknown	Unknown
	Average price for a unit of BDS (markup)	Microenterprise owners, 49% of \$131,000 in sales; INDEPCO, 3% profit after materials	Unknown	NGO participants once received stipends; markets are now free	No charge for service; farmers pay costs of information-gathering trips
	Number and proportion of multiple-user customers in the market	Unknown	Unknown	Majority of NGOs participate annually	Unknown
	Market distortion: average subsidy content of a BDS*	Unknown	Unknown; association business activities not directly subsidized	100%	Unknown
Increasing access to BDS services by underserved groups	Extent of access: number and percent of SMEs that represent targeted populations	50% women; all poor with average annual incomes below \$1,000	100% smallholders; 36% women	Majority women; all rural poor	All smallholders; 19% women
	Target market penetration	Unknown	Unknown	Unknown	Unknown

* Should be reported for both the market at large and the providers assisted by the project. In these cases, the projects did not track the development in the market at large.

NOTE: BDS=business development services; SME=micro-, small-, and medium-sized enterprises

Performance Indicators for SEEP Cases—continued

GOAL 2: SUSTAINABILITY AND COST-EFFECTIVENESS					
ASSESSING BDS SUPPLIERS					
Objective	Indicator	INDEPCO Haiti, 1996	SADP/NASFAM Malawi, 1996	Gram Shree Mela India, 1989	AgReform Egypt
	Time in operation	3 years	3 years	10 years	3 years
Supplier sustainability	BDS supplier cost-recovery of operational costs from clients' fees	Training, 50% cost-recovering; subcontracting, 3% profit margin; total subsidy ever, \$65,000	In 1998, 11 of 12 associations audited were profitable; joint surplus, \$15,000; average income-to-expense ratio, 2:1	Sales-to-expense ratio, 4:1	After several linkage trips, farmers can continue themselves
Program cost-effectiveness	Simplified cost-benefit assessment comparing total program costs to aggregate program benefits for entrepreneurs	Unknown	For a 6 year period, total in-country project costs, \$3M; average annual project costs, \$500,000	Total investment cost, around \$1M; in 1997, around \$250,000	Total investment to date, \$2.23M
	Total program cost/customer served	Subcontracting, \$928/subcontractor; \$16/client trained, 2 trainings each	Cumulative cost/customer, \$75; annual cost, \$12.5	Cost/producer, \$28	\$446/farmer
	Total program cost/supplier assisted	\$65,000	\$176,500/association; \$1,200/club	Cost/NGO, \$200	\$2.23M for 1 provider
	Total program cost/increase in suppliers' revenue	\$0.49 in program cost/\$1 in revenue	\$0.11 cents/\$1 in revenue	\$0.25 cents/\$1 revenue	Unknown

GOAL 3: IMPACT					
ASSESSING BDS CUSTOMERS, SMES					
Objective	Indicators	INDEPCO Haiti, 1996	SADP/NASFAM Malawi, 1996	Gram Shree Mela India, 1989	AgReform Egypt
Increase customers' acquisition of BDS	Customer satisfaction with a BDS	Unknown	Unknown; 80% growth in membership in 1998	98%, "good marketing outlet"; 78%, satisfied; 60%, satisfied with workshops	Unknown
	Repeat customers (percent of customers who buy more than once)	Unknown	Unknown	60%	Unknown
Increase customers' use of BDS	Percent of customers who improve business practices, as defined by the supplier	23% of members are subcontractors	Mostly unknown; 20% used transportation services	63% of final customers purchased; percent of NGOs that made sales is unknown	Unknown
Increase customers' benefits from BDS	Change in value-added (sales—raw materials)	Unknown	For members using transportation service, member revenue was 13% above nonmember revenue; input costs reduced by 9%; total net savings, \$400,000	Unknown	Unknown

PERFORMANCE ANALYSIS

Results. The cases vary widely in their performance on these three sets of indicators, as described below.

a. Scale/Outreach and Market Development. Although recent thinking in the BDS field recommends promoting the development of competitive BDS markets, few programs in this study had that goal, and no programs measured it. Only one program attempted to support more than one BDS supplier, and these were aligned in one association, so they were not competitors in the same market. For **marketing businesses**, success in developing the market is measured by overall sales, which ranged from annual sales of \$100,000 to \$3,400,000. **Marketing service providers** and **market infrastructure developers** focused on reaching large numbers of entrepreneurs and, in many cases, reaching the poor. The programs served between 5,000 and 100,000 enterprises, more people than the marketing businesses, which served between 70 and 1,000 entrepreneurs. In terms of how programs helped disadvantaged groups gain access to services, most programs focused on microenterprises and smallholder farmers, with only one targeting medium-sized exporters. In these cases, between 20 and 50 percent of the target groups were women.

b. Sustainability and Cost-Effectiveness. The vast majority of programs focused on sustainability. Most programs exhibit some level of financial sustainability and use subsidies mainly to expand markets or offer new services. **Marketing businesses**, in particular, focus on sustainability. All marketing businesses in the study earn an annual profit from product markups that covers basic operating expenses, although they all used subsidies to get started. None charge “fees” for services as such. Sustainability in these programs does not depend exclusively on the number of years in operation, as many older programs are not very sustainable while a few younger ones are. **Marketing service providers** struggle more with sustainability than marketing businesses do, because they must charge entrepreneurs for services, rather than cover costs through product markups. One such supplier in the study recovers no staff costs, although farmers pay for the material costs of the service. The other program that tracked this indicator covers only 5 percent of costs from entrepreneur customers. Nevertheless, the programs did show a trend of SME willingness to pay for effective services. Finally, the **market infrastructure providers** raised long-term funding from public-sector sources.

Although no program calculated a cost-to-benefit ratio, other cost-effectiveness indicators were tracked and varied widely. Total program costs range from \$65,000 to \$4,000,000. The cost per client served ranges from \$12.50 per year to \$10,000 cumulative (three years to date). The cost per \$1 in sales generated ranges from 11 cents to 49 cents. One program estimated that for every \$1 in program investment, customers generated \$2-3 in income. Because of wide ranging data in this area, it is difficult to draw conclusions.

c. Impact. The main measure used to assess client impact in marketing programs is increasing sales, and many programs helped SME customers do this. Total annual program sales ranged from \$131,000 to \$27,000,000 per year. Sales per entrepreneur served range from \$4 to \$10,000 per year. A few programs tracked customer satisfaction or ultimate impact on clients in the form of cost savings, or income earned that was higher than SMEs not assisted by the program. Although these indicators are informative about program performance, the most common and powerful indicator for marketing programs was increasing sales for entrepreneurs.

Conclusion. Despite the limitations of comparing nonstandard performance data, several key conclusions can be drawn about the performance of marketing programs. Many are patterns that would be expected, others are quite surprising.

a. Performance measurement is a challenge. Monitoring and evaluation activities are expensive and challenging for most programs. In addition, the programs in the study collect and report nonstandard performance data, which makes comparison among programs difficult. *The most common performance indicators include number of clients served, income level, gender, sales generated, program costs, and profitability of marketing businesses.* As programs focus increasingly on financial sustainability and involve greater numbers of private-sector players, tracking profitability receives significantly more attention than tracking such measures as scale, outreach, and impact. For example, after three years in business, PROARTE is only now beginning to develop a system for tracking the income its clients receive from sales of their products to the company, but they have tracked profitability from the start.

b. Programs focusing on market infrastructure development reach larger scale. In the cases reviewed, dissimilar program models perform differently with regard to scale. The two cases that strengthen the **marketing infrastructure** serve large numbers: the GSM project serves one hundred thousand clients annually, and SADP/NASFAM serves 40,000. In contrast, AgReform and PCS serve a few thousand, while five others—INDEPCO, ZIWA, AMKA, PROARTE, MSE, and UNIDO Clusters—serve fewer than 1,000 per year. Although the smaller programs are **marketing businesses and marketing service providers**, it may be possible for them to reach larger scale. Jamaica MicroNET, a marketing service provider, plans to reach a larger scale. Its strategy is to replicate, through branches, a standard set of marketing services, such as basic business and marketing training, as well as access to telecommunications, marketing advice, and desktop publishing for marketing materials.

c. Reaching the poor is a matter of choice, not sustainability. Many analysts suggest that for BDS suppliers to be financially sustainable, they must serve middle- or upper-income clients. The cases reviewed here, however, suggest that no correlation exists between the ability to serve the poor and financial sustainability. All cases profiled in this study, with the exception of two studies on export services, target either low-income microenterprises or smallholder farmers (according to the programs' varied definitions). At least 20 percent of most organizations' clients are women, and several programs serve a clientele of primarily women: INDEPCO, GSM, and PROARTE. Of these, INDEPCO and PROARTE are financially sustainable marketing businesses, and GSM, although dependent on the government for subsidies, has been active for a decade. Similarly, the programs that performed best in terms of financial sustainability—PSC, INDEPCO, and PROARTE—all target low-income microenterprises, and a significant proportion of their clients are women.

d. Larger programs seem to have less intense impact on clients. Impact is difficult to compare because programs track significantly different data. The most common indicator, however, is program sales data. A proxy indicator for income earned per client is sales generated per person served, although it is recognized that this does not take into account the percentage of these sales that actually reach a client. The two largest programs in terms of people served, SADP/NASFAM and GSM, generate significantly lower sales per person—\$675 and \$4—compared to smaller programs. PCS, on the other hand, served 1,000 entrepreneurs and generated annual sales of \$3.4 million, or \$3,400 per person served. It is possible that these differences are due to geographic factors, since the larger programs are in Africa and India and the smaller in Latin America. It is also possible that the income difference depends on the starting income level of clients, a reflection of market value and the volume of products that clients typically produce. It may also be that larger programs simply spread their program efforts over larger numbers of people. Whatever the cause, the pattern seems to be that smaller programs have a more intense impact on clients.

e. Cost-effectiveness is not related to scale or program model. Cost-effectiveness is equally difficult to compare. The only two ratios calculated with existing data are a cost-per-client ratio and the cost per \$1 of sales generated. There were no observable patterns of performance across program type, size, or target population. INDEPCO, SADP/NASFAM, and GSM all have a low cost-per-client ratio of under \$30. AgReform's ratio is higher at \$446, and PROARTE's \$10,000 per client is even higher, but this ratio was from its first year of operation. INDEPCO's ratio is now quite low, but the company plans to increase its cost per client to around \$55 as it begins providing new services. Costs per \$1 of sales varied similarly. The conclusion here is that cost-effectiveness can be correlated neither with the program models described here, nor with scale.

f. Marketing businesses reach sustainability more easily, but other strategies are evolving. Most projects profiled in the study show signs of financial sustainability and some level of profitability, but the marketing businesses appear to be more focused on financial sustainability and are achieving it more quickly. INDEPCO is able to survive as a marketing business without subsidies, though on a small scale. PCS has been profitable since 1994, and PROARTE covers its operating costs. The marketing service providers demonstrate that entrepreneurs are willing to pay for their services, and they show signs of cost-recovery: smallholder farmers and entrepreneurs in the AgReform and FIT programs pay for information obtained through visits to other businesses and experts.

The GSM and SADP/NASFAM market infrastructure programs take a different approach. GSM festivals generate significantly more sales than costs (sales-to-cost ratio is 4:1). If fees were charged, the markets could be sustainable. The government and people of India have decided, however, that these festivals are a *public good* that serves the poor, and taxpayers are willing to fund the markets so that the rural poor may keep a larger percentage of their sales. In contrast, SADP/NASFAM has never provided financial support to the associations that form part of the program. The associations receive technical assistance and advice from SADP/NASFAM and then engage independently in businesses that serve smallholder farmers. They are all financially sustainable, and together make a modest profit of \$15,000 per year. In addition, because of successful advocacy efforts, NASFAM now receives a percentage of the tobacco levy to cover the cost of NASFAM's farmers support activities. Thus, even these large infrastructure programs have developed permanent funding bases. We can conclude that, for SME marketing programs, sustainability seems to be a goal within reach, particularly for the marketing businesses.

g. Smaller programs reach sustainability more easily. The other recognizable pattern with sustainability is that smaller programs seem to reach sustainability faster than larger programs, opposite from the experience of microfinance programs that strive for large scale to reach sustainability. One reason is that the **marketing businesses**, which tend to be more sustainable, also tend to be smaller. The other is that the largest programs, **the market infrastructure programs**, are significantly more expensive and complex to manage, and many of their services are considered a *public good* for which it is difficult to capture costs. Another reason might be that entrepreneurs are more willing to pay for tailored, sector-specific services, which in turn are relevant for smaller numbers of entrepreneurs. It is harder to tailor services for large numbers of people. The Jamaica MicroNet program may break this pattern, however, as it attempts to deliver marketing services on a large scale. In contrast to the other programs profiled here, Jamaica MicroNet is not sector specific, which may enable it to reach scale and sustainability.

IMPLICATIONS FOR THE PERFORMANCE MEASUREMENT FRAMEWORK

The experience of collecting and analyzing existing data was useful for drawing many conclusions about performance of BDS programs, but was somewhat limiting for drawing conclusions about the

Performance Measurement Framework itself. This is because the programs did not track or report much of the data requested in the PMF. Nevertheless, some observations regarding the practicality, validity and usefulness of the framework can be drawn.

General Observation

In cases where a specific indicator was not available, such as “value-added,” it was useful to report whatever impact indicator a program uses. Thus, the framework should more explicitly state that indicators measuring the same goals can be substituted when a particular indicator is not available. In this manner, more common, practical indicators might emerge and replace those in the current framework.

Scale/Outreach and Market Development

The programs in this study were designed and analyzed well before the “market development paradigm” was articulated. Hence, the programs neither explicitly seek to develop a BDS market nor do they track development in the BDS market. Rather, they track scale of their program. Thus, the only observation about market development goals and indicators is that they are new to most marketing programs and will have to be developed.

In terms of measuring scale and outreach, most programs report some data for this category and the following points were observed:

- It is relatively easy for suppliers to report the number of customers, as opposed to the number of transactions, and their gender.
- Suppliers report whether their customers are low-income or micro-enterprises, and whether they are rural or urban businesses, but the definitions used are non-standard and were not reported.
- Most organizations do not track multiple use or customer satisfaction, although those that do indicated that such tracking would not be a major challenge.
- Programs do not have an idea of the size of their target market so do not track market penetration.
- Programs do not track the subsidy content of their services.²

Sustainability and Cost-Effectiveness

Most programs tracked sustainability indicators, but were less focused on cost-effectiveness indicators. Observations include:

- The sustainability indicators were in need of standardization, but were useful in comparing basic performance.
- Few programs calculated an overall cost-benefit ratio because few programs tracked quantitative impact.
- The basic cost-effectiveness indicators of cost per client services, cost per \$1 of sales increased, etc. were easy to track, but were not very meaningful. The range was so wide and did not correlate with program design, scale, sustainability or any other indicators. These indicators might be more useful for comparing similar services than a wide range of programs.
- Cost-recovery was not a good indicator for impact. Those programs that focused on sustainability did not measure impact well. Those who had some indicators showed no correlation between sustainability and high impact.

² Of particular interest to organizations endeavoring to reach microenterprises, the poor, women or other disadvantaged groups, the programs in this study showed that they do reach disadvantaged groups, and support the market development paradigm. This implies that, combined with appropriate targeting mechanisms, the market development paradigm holds promise for disadvantaged businesses as well as more mainstream SMEs.

Impact

Only a few programs tracked the impact indicators requested by the framework. Instead, they tracked sales generated by the program, since it was easy to calculate a figure for sales generated by individual businesses. Some specific observations:

- “Value-added” was not reported. Only two programs attempted to report the income clients gained (or savings accrued) from receiving services. Without impact data, it was impossible to calculate cost-benefit ratios. There is a significant need for valid, practical indicators in this area.
- One program used “control” data when tracking impact. It compared the cost of production of assisted farmers to that of unassisted farmers. The data is available in national surveys. This was a very useful comparison.
- Only one organization tracked customer satisfaction; it was a useful indicator that the program has used over the years to determine the relative success of the program. The program did not report a 100% satisfaction rate, which indicates that this is a relatively objective measure.
- Only one program tracked the number of repeat customers, but it seemed like an easy and relevant indicator. In these programs, repeat customers would have been a positive signal.
- Each service type may have its own “most common and effective” indicator for impact. In marketing, it is sales generated. Increasing sales was the positive change in business practices. The PMF should remain flexible enough to allow different service types to develop and report standard indicators.

In general, it is not surprising that programs did not report much of the data on the PMF since the cases were written before the advent of the PMF. Nevertheless, the simple act of organizing existing data into the PMF led to interesting and valid conclusions about program performance. Thus, this study indicates that, if the PMF were to be used regularly to collect and report standard data, the field would benefit significantly. The next section illustrates some of the powerful program design and management lessons that emerged from this limited use of the framework.

TRENDS, LESSONS LEARNED, AND CHALLENGES FOR MARKETING PROGRAMS

Moving beyond methodology, program descriptions, and performance results, the study explores the trends, lessons learned, and challenges of four basic marketing issues: (1) program design and management, (2) market research and positioning, (3) product development and production, and (4) sales. These observations illustrate the type of best practice analysis that becomes viable when standardized indicators are applied.

Program Design and Management

Two key trends suggest that (1) most programs focus on one product sector, but new, multisector services are emerging, and (2) although most programs still receive grants, private-sector financing mechanisms such as loans and equity are becoming more important. Three key *lessons learned* are: (1) successful organizations work with visionary leaders, have staff with technical and marketing skills, and provide financial incentives to staff for good performance; (2) SMEs are willing to pay for focused, effective services; and (3) effective institutional arrangements mimic private sector institutions. Several *challenges* concerning program design and management include: (1) embedding costs of marketing services into product markup in a marketing business may erode market signals around marketing services; (2) organizations offering marketing services, as opposed to those running a marketing business, had a more difficult time achieving financial sustainability; (3) the

Programs that are modeled after the private sector perform better.
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marketing businesses have an interest in protecting their market from competitors, rather than promoting competitive markets for BDS services; (4) individuals or companies investing in not-for-profit marketing ventures that receive public funds face issues of integrity that arise when these companies begin turning a profit and the individual investors benefit; (5) some marketing activities, such as training, group organization, and advocacy, do not show signs of being financially sustainable the way selling does.

Market Research and Positioning.

Market research and positioning *trends* suggest that the programs relied on a wide array of information sources to track market information including national surveys, trade journals, and the Internet. *Lessons learned* include: (1) the not-for-profit programs succeeded at a wide range of market research strategies; (2) some program focused on high-value specialty markets, others on low-value mass markets; (3) every program showed that personal networking was a key element in gathering information and developing an effective market niche. The major *challenge* in market research and positioning facing programs in this study, was whether to conduct substantial, expansive market research, or whether to use more minimalist approaches, particularly those that link the entrepreneur directly with final customers of their products.

The field still has much to learn in the area of market research.

Product Development and Production.

Two key *trends* were: (1) many programs used a wide variety of strategies to help entrepreneurs with input supply; and (2) they linked entrepreneurs to outside sources of finance rather than directly offer financial services. Several key *lessons learned* about product development and production include: (1) the strategies used for delivering training and product development services varied according to program model; (2) marketing businesses, mimicking the private sector, succeeded by applying strict quality control; and (3) successful marketing businesses, like the private sector, priced products according to market demand, not according to the costs of SME suppliers. Two *challenges* in this area included: (1) how much marketing businesses could help entrepreneurs develop their businesses to market standards while being financially sustainable themselves; and (2) how marketing businesses could give a fair price to entrepreneurs while remaining competitive in the private-sector market.

Product development is the major strength of SME marketing programs.

Sales Strategies

The study showed that few organizations are taking advantage of a recent *trend* in selling: Internet commerce. *Lessons learned* show that (1) most organizations in the study marketed to existing private-sector markets, rather than by creating “alternative” markets; (2) they marketed to wholesalers, rather than selling directly to consumers; and (3) a few programs used advocacy to open markets, a strategy that required a significant amount of personal networking to raise public recognition of the organization. Organizations faced two major *challenges* in selling: (1) working with large buyers and (2) for the program that were not marketing businesses, selling their marketing services to entrepreneurs themselves. Few organizations faced the challenge of understanding and confronting ethnic and class barriers to marketing; rather, they selected markets in which such barriers were absent.

The field needs to develop better skills in selling marketing services.

IMPLICATIONS FOR THE MARKET DEVELOPMENT PARADIGM

Although only one of the programs profiled here (FIT) seeks explicitly to develop a BDS market, the three program models do suggest different potential paths towards BDS market development.

Marketing Businesses. Marketing businesses have an inherent interest in *not* developing a BDS market. They are private companies with an interest in beating the competition. However, a marketing business started with public sector funding could have either a positive or a negative impact on a BDS market. In a competitive market with large numbers of channels for SMEs to reach markets, a subsidized marketing business would crowd out private sector marketing businesses. However, in a monopolistic market, where one or a few marketing businesses are using their market power to offer very low prices to SMEs, and taking high margins themselves, a subsidized marketing business might serve to make the market more competitive. Finally, where no market channels exist, a subsidized marketing business might serve to attract new businesses to the area, once profit-making opportunities have been demonstrated. For any marketing business, the existing market should be analyzed and characterized during the program design phase, and the intended change in the BDS market should be documented. The marketing business should be expected to track changes in the market. However, it is unrealistic to expect a marketing business to actually develop other marketing channels. It is simply a conflict of interest.

Market Service Suppliers. Marketing services suppliers, in theory, could fit into the market development paradigm well. They provide a BDS that SMEs pay for and that adds value to business. There are two roles that BDS organizations in this study play in providing marketing services. First, there is a “facilitator” institution that develops and tests the marketing service, such as UNIDO, the ILO, CARE, or the Manikaland Manufacturers Association. Then, there is the actual supplier. In these cases, the supplier is sometimes a private sector BDS supplier (UNIDO consultants), sometimes a non-profit entity (research centers in the CARE project), and sometimes a company that the SME develops a transactional relationship with. The ILO was seeking to identify private sector companies (tour companies and publishing interests) that would become BDS suppliers. In any of these models, the potential exists for programs to contribute to the development of private sector services or sustainable services that are simply not fee-based (farmers in the same village regularly visit research centers; private sector buyers provide technical assistance the SME suppliers). The challenge is for “facilitators” to identify and develop viable services, and identify the sustainable transaction mechanisms—either through a specific “supplier” or through a transactional or community-based relationship. The important aspect of these programs for donors to recognize is that the “facilitative” role of developing, testing, and disseminating the service to the parties who will make it sustainable, is not cost-recovering. Yet, it likely will be carried out by organizations that receive donor funds. Clarifying the difference between “facilitative” and “supplier” roles will be key to designing rationally funded programs in this area.

Market Infrastructure Developers. On the surface, market infrastructure development programs are diametrically opposed to the market development paradigm, but a closer analysis reveals that the market has a strong role to play in the success of these programs as well. Market infrastructure programs provide a type of public good to large numbers of people, and they develop permanent, subsidized institutions to deliver that service. The service itself, at least in the models presented here, is delivered in turn to other nonprofit organizations serving SMEs. At first glance, the model is “old fashioned,” but the programs in this study reach significantly larger number of people—between 40,000 and 100,000—compared to the largest of the other programs, which served 1,000 people. This success cannot be ignored. In both cases, the infrastructure developers, acting as “facilitators,” were assisting nonprofit marketing programs to provide better services and links with markets. In the GSM case, the rural non-governmental organizations were acting as marketing businesses and in the SADP/NASFAM case, the farmers

associations were offering marketing services and acting as supplier businesses. In the GSM case, few of the NGOs were financially sustainable and instead received subsidies from the government and other sources. In the SADP/NASFAM case, the farmers associations were financially sustainable. In both cases, the purpose of the not-for-profit enterprises is not to run a business or make a profit, however, the aim is to develop SMEs. The financing for both programs came from different tax sources. The governments and population in both situations decided that the subsidies to the “facilitators” were a “public good” worth investing in. On the surface, these successful programs contradict the market development paradigm.

Despite all these “non-market” aspects to the programs, the principles of the market development paradigm nevertheless make sense in these contexts. For example, in the SADP/NASFAM program, the farmers associations did not buy trucks and start transporting tobacco. Rather, SADP/NASFAM helped the associations negotiate fair, enforceable contracts with private sector transporters. The questions then arise whether NASFAM could identify private sector agricultural trainer to offer training, or eventually privatize or charge fees to farmers for the service of helping farmers to organize into an effective association, at least for their bookkeeping tools. Currently, NASFAM is supported by a tobacco levy, but similar levies do not exist in all agricultural sectors. Moreover, tobacco markets are declining so identifying such cost-recovery mechanisms would help NASFAM remain sustainable as it diversifies into alternative food crops. In the GSM case, the data demonstrate the financial viability of the GSM markets, (sales generated exceed costs by a factor of 4:1). If the NGO operating the GSM in each city were to charge fees for participation in the GSM, it would be possible to offer the GSM annually without subsidies. Hence, the central government could support the initial GSM in 12 new cities per year, instead of supporting the same 12 cities. If a second NGO wanted to start a competing GSM in the same city, that would be the start of a competitive market situation. As a result, rural NGOs and consumers would have alternatives if they did not like one organization’s service. Thus, applying market development principles to these infrastructure programs could enhance their scale and sustainability. The risk is that, in programs with fairly low levels of impact (using the indicator “sales generated per business”), the impact to clients would be reduced even further, or the client profile would move up the income spectrum. In the long run, it is up to the government and people of a country to determine how to invest their resources. Nevertheless, the choice should be informed by the learning offered by the market development paradigm.