



BROOKINGS

Global Health Financing Initiative

SNAPSHOT SERIES

Private Sector Financing for the Global Fund: (Product)^{RED}

Background

The Global Fund to Fight AIDS, Tuberculosis and Malaria is a partnership between governments, civil society, the private sector and affected communities to increase dramatically resources to fight three of the world's most devastating diseases, and to direct those resources to areas of greatest need. Sustainable and predictable financing for the Global Fund would ensure long-term success since sustained funding means sustained treatment and livelihoods for those suffering from these diseases.

As of January 31, 2008, the Global Fund had a portfolio of 495 grant agreements in 136 countries, with a total commitment of about US\$12 billion. It has cumulatively disbursed \$5.07 billion in its first six years (since January 29, 2002). While the Global Fund received more than \$2.43 billion in 2007, only about 1.7%, or \$41 million, came from commercial enterprises. In a strategy to develop a predictable and sustainable flow of contributions, a key element is to diversify sources of funds, and private commercial contributions could potentially play a much larger role.

This snapshot examines one of the private sector financing models for the Global Fund in detail – Product Red – and discusses the business model as well as its revenue potential.

What is Product Red

(Product)^{RED} is a trademark created in 2006 by Bono, lead singer of U2, and Bobby Shriver, co-founder and chairman of Debt, AIDS, Trade, Africa (DATA), specifically to address the need for sustainable, diverse funding sources. Product Red is a limited-liability company owned by its two founders. It licenses its trademark to companies that agree to donate some of the revenue or profits from the sales of Product Red goods or services to the Global Fund and pay a fee to Product Red for marketing and administration. The founders emphasize that it is a business model, not a charity.

How does it work?

The Product Red trademark is licensed to well-known, profitable global companies, such as American Express, Apple, Converse, Dell, the Gap, Giorgio Armani, Hallmark, Microsoft, and Motorola. Each partner develops products branded with the Product Red logo. Every arrangement is different, but partners have generally pledged about 40 percent of their profits from sales of Red products to Global Fund programs in Africa.

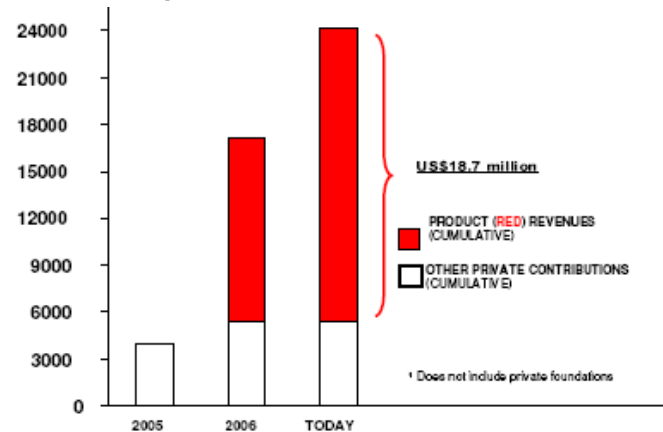
Although Product Red is similar in some respects to other cause-related marketing ventures, such as Newman's Own, which donates all profits to charity, it differs in that it is a single brand marketed across different products and companies. Red licenses only one company in each product category, which introduces a monopoly element within each product category. Red companies benefit from its brand recognition, marketing support, and ready access to celebrity support. Red provides a way companies

can tap into demand by so-called conscience consumers without having to develop their own brand and giving arrangements. The partnership has been successful for Hallmark, for example, where three of the top-twenty selling cards bear the Red logo. In short, companies can expand their markets, sell to new groups of consumers, make more money, and do good all at the same time.

What are strengths and weaknesses of Product Red?

Product Red could generate a long-term source of corporate revenue for the Global Fund, with high volume and predictability. Transaction costs also would be lower than is possible when businesses are solicited individually for charitable giving. By February 15, 2008, following a successful \$42 million Valentine’s Day art auction sponsored by Bono and Damien Hirst, Red and its partners had contributed more than \$100 million in total, over five times what had been achieved by April 2007, (“Today” in Figure I). Advocates hope to reach several hundred million dollars a year as the brand takes off. As with the Debt2Health initiative, the Global Fund allows country earmarking for Red as a concession to the company’s marketing needs. For example, in 2006 the Global Fund described to Red customers the achievements of specific grants to Rwanda and Swaziland that were funded by Red. Although earmarking can restrict options, in the vast sea of funds managed by the Global Fund, this type of country earmarking probably does not unduly constrain Global Fund allocation decisions.

Figure I. Contribution of Product Red to GFATM, April 2006 to April 2007



Socially conscious consumers are a potentially sizable share of the market: a “good cause” would motivate 89% of 13 to 25 year-old Americans to change brands if quality and price were consistent, according to a 2006 poll by Cone Inc. By linking an ethical cause to attractive products, Product Red hopes to encourage all consumers to behave as if they were socially conscious. The Product Red campaign also raises awareness of both the Global Fund and its activities. That could translate into other benefits, such as encouraging politicians to support official donations to the Global Fund.

From the start, Product Red has been criticized for allowing its partner companies to profit from increased sales due to a desire of consumers to help impoverished Africans. In response, proponents repeat that Product Red is first and foremost a business, but one that generates funds that otherwise would not exist for AIDS victims in Africa. They add that Red piggybacks on commercial marketing, and that by virtue of buying Red products, consumers learn about the depth of the AIDS problem in Africa.

Furthermore, some critics claim that Product Red lacks transparency with respect to the amount of money each company is actually contributing to the Global Fund. Some companies, such as Motorola, which gives \$8.50 from each sale of its Red Motorazr, clearly state the amount of money that goes to the Global Fund. Hallmark donates 8% of net wholesale sales to the Global Fund. Other companies promise to donate a certain percentage of profits from sales of Red products, but they do not specifically state how they calculate the profits.

Whatever the criticisms, because Product Red is a business, it will succeed or fail on that basis.