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Private Sector Division work plan and proposed budget for 2003

Summary

The Executive Director presents the Private Sector Division (PSD) work plan and proposed budget for 2003.

In 2003, PSD plans to generate $195.9 million in net consolidated income for regular resources. In addition, $165.0 million are projected to be raised from private sector fund-raising activities for other resources. This will be achieved with expenditures of $80.9 million.

The formal decision to be made on the basis of the present document is the adoption of the draft resolutions relating to the budget proposal contained in paragraph 38.

* E/ICEF/2003/2.

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Contents

I. Overview

A. Introduction

1. The year 2002 was full of challenges, most importantly in implementing the recommendations of the Private Sector Fund-raising Task Force (PSTF) and in completing the restructuring of the Private Sector Division (PSD). It was also a year of turnaround in both revenue-producing activities.

2. To summarize the key achievements:

(a) The private sector fund-raising strategy is near completion and will be rolled out globally in the first quarter of 2003;

(b) The sales and product strategy has been finalized and is being implemented;

(c) Transparency of National Committees’ revenue and expense streams, together with PSD expenses achieved through the PSTF Finance subgroup, is being sustained and continued;

(d) Profitability between cards and gift products is reviewed regularly and is a critical criterion used when selecting any new product;

(e) PSD restructuring and further consolidation of functions in Geneva have been completed successfully, with subsequent efficiency gains estimated at $2 million to materialize already in 2002 and recurring annually;

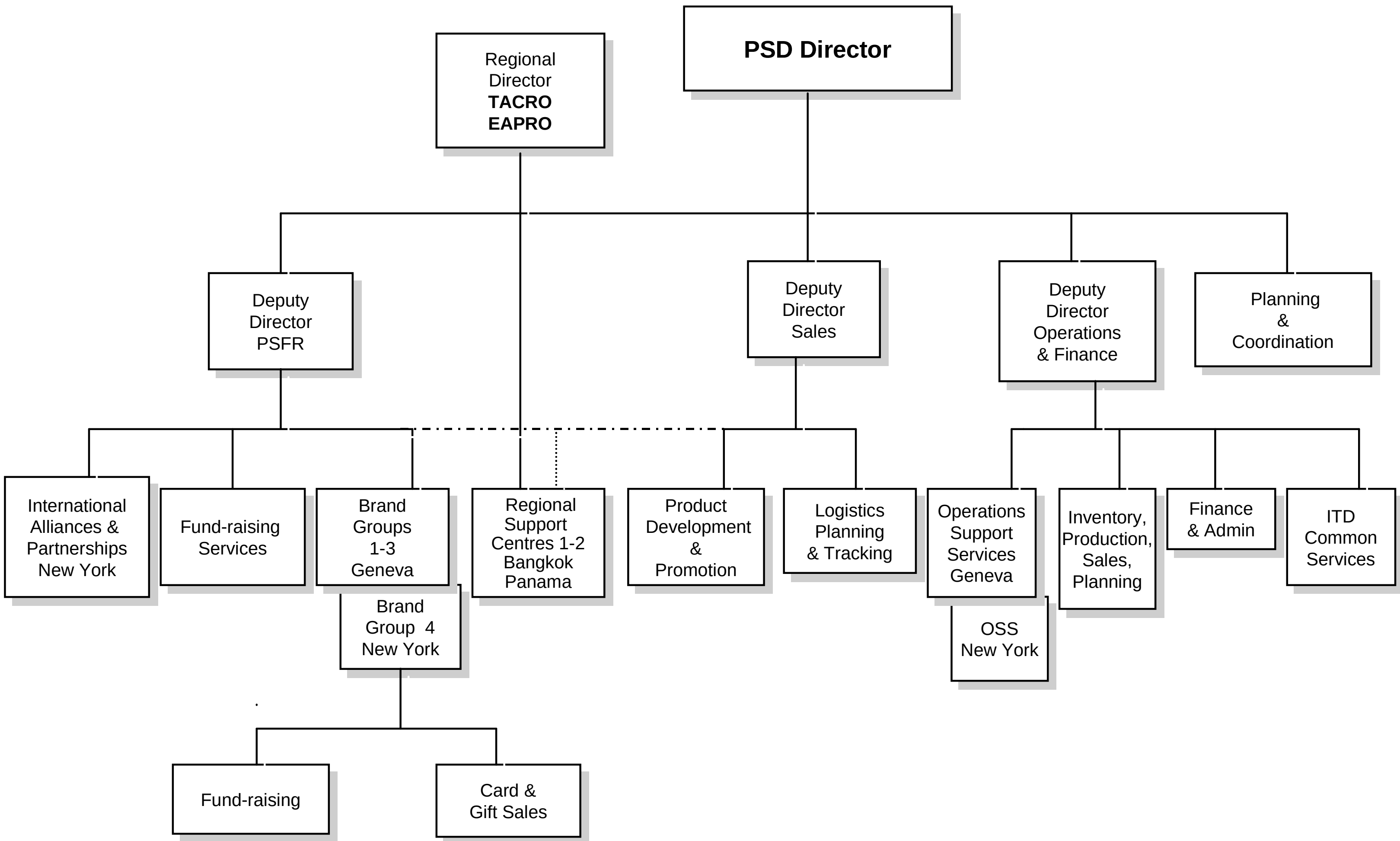
(f) The newly created posts of Deputy Director, Fund-raising, and other specialized staff have been filled, and Brand Groups are now fully staffed globally;

(g) Service delivery to PSD sales partners improved substantially, and with the introduction of enhanced inventory control, improved margins through lower inventory write-downs are anticipated.

3. At its January 2002 session, the Executive Board requested PSD to submit, as part of its work plan and proposed budget for 2003, a comprehensive business plan to be updated annually (E/ICEF/2002/8, decision 2002/6). In compliance with that request, PSD is including its business plan for 2003-2005 in the present document (see annex III).

4. To reflect the increased emphasis of the Division on private sector fund-raising, a new matrix structure, with the Brand Groups reporting directly to the Deputy Director, Private Sector Fund-raising (PSFR), with a dotted line to the Deputy Director, Sales, is also included in the present report (see the organizational chart below):

Figure A
PSD global structure, 2003



5. Two formats of the PSD income statement are included in the present work plan and budget document: table 1 — PSD income statement; and table 1A — net income after allocation of operating expenses by revenue-generating activity (management statement — supporting table 1). Table 1 reflects PSD results contained in the financial report that is submitted and noted by the UNICEF Executive Board. This table is prepared in accordance with statutory requirements. Table 1A is a management statement showing PSD operating results of its two revenue-generating activities, i.e. sales and fund-raising. This statement presents the allocation of costs of both marketing and support services between sales and private sector fund-raising to measure the net contribution of each activity. The income statement figures presented in paragraphs 6-9 below are derived from table 1A.

6. As shown in table 1A, the PSD net consolidated income from both revenue-generating activities for 2003 is projected at $360.9 million, compared to the 2002 latest estimates of $394.9 million. The net consolidated income estimated for 2002 includes a single, exceptionally large legacy contribution of $53.5 million. Of the total net consolidated income projected for 2003, 54 per cent ($195.9 million) will be for regular resources and 46 per cent ($165.0 million) for other resources (see figure B below).

7. As also seen from table 1A and figure C below, $142.5 million, or 73 per cent, of the regular resources income is attributable to private sector fund-raising activities and $53.4 million, or 27 per cent, to sales of cards and gifts.

Figure B
Composition of PSD net consolidated income, 2003

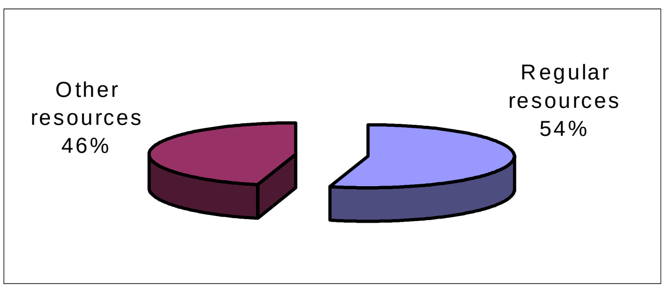
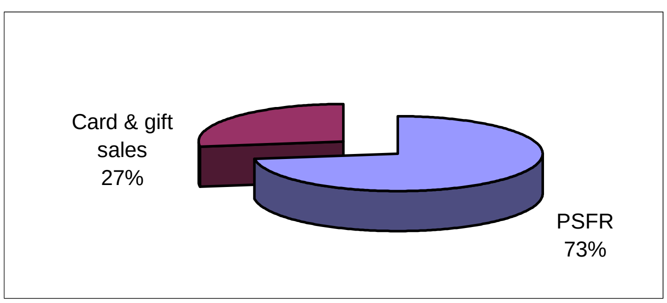


Figure C
Composition of regular resources net operating income by income-generating area, 2003



8. In the area of private sector fund-raising, the net operating income (before investment funds) for regular resources for 2003 is projected at $153.3 million, compared to the 2002 latest estimate of $196.8 million (see table 1A), which includes a single, exceptionally large legacy contribution of $53.5 million. In addition, for 2003, $165.0 million of other resources income are projected, an increase of $10.0 million (6.5 per cent) over the 2002 latest estimates.

9. In the area of card and gift sales, for 2003, sales volume is projected at 134 million cards and gross proceeds are projected at $134.0 million. This is an increase of 1 million in sales volume and $4.0 million in gross proceeds over the 2002 latest estimates. After allocating operating expenses to each revenue-generating activity, the net operating income from card and gift sales (before investment funds) for 2003 is projected at $56.8 million, compared to the 2002 latest estimate of $57.1 million (see table 1A).

B. Consolidated income and expenditure projections for 2003

10. As indicated in table 1, the PSD net consolidated income for 2003 is projected at $360.9 million ($195.9 million for regular resources and $165.0 for other resources), which is $34.0 million (8.6 per cent) lower than the 2002 latest estimates. As highlighted above, the 2002 latest estimate includes a single, exceptionally large legacy contribution of $53.5 million. Excluding this contribution, the 2003 proposed net consolidated income would be $19.5 million (5.7 per cent) higher than the 2002 latest estimates. Without allocating operating expenses between the two revenue-generating activities, the projected net consolidated income (regular resources) in 2003 of $195.9 million comprises net operating income from card and gift sales of $51.6 million and net operating income from private sector fund-raising of $158.5 million, offset by the cost of investment funds of $14.2 million to support fund-raising and sales initiatives.

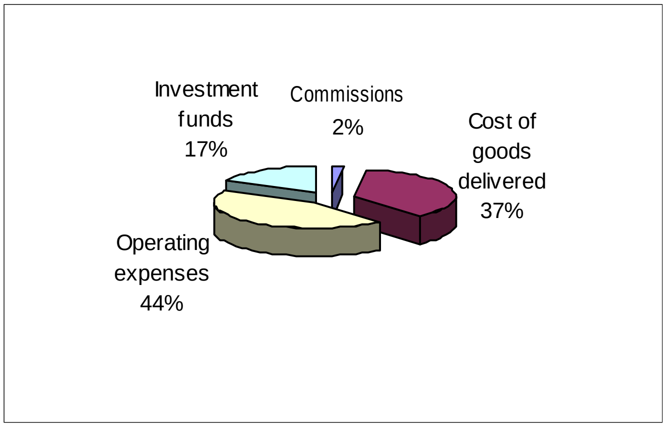
11. Consolidated expenditures for 2003, as summarized in table 2, are projected at $80.9 million, which is $1.3 million (1.6 per cent) lower than the 2002 latest estimates. This decrease comprises lower operating expenses ($5.6 million), due primarily to the implementation of the revised leaner structure and consolidation of functions in Geneva, offset by higher cost of goods delivered ($3.9 million) resulting from the now weaker United States dollar, higher commissions ($0.2 million) paid at field offices and marginally increased investment funds ($0.2 million). Figure D below shows how PSD has allocated its 2003 proposed budget.

C. Human resources

12. The PSD structure as approved by the Executive Board in 2002 (decision 2002/6) is now in place. The Deputy Director, PSFR, is on board, and all the Brand Groups, globally, are fully staffed, with an intentional strengthening at all levels with fund-raising experience.

13. The proposed work plan for 2003 reflects a realignment/strengthening of functions at those field offices that offer the opportunity for income growth. The total number of posts will increase by 3, from 190 to 193, and all of them will be established at field offices. The number of international Professional posts will increase by 1, and General Service posts will increase by 2.

Figure D
Allocation of PSD proposed budget, 2003



II. Marketing

A. Introduction

14. In 2002, the main thrust was on the finalization of both the sales and fund-raising strategies. As indicated above, these were finalized jointly with the participation of National Committees. These strategies will guide PSD and its partners in meeting the ambitious income goals for 2005. PSD also focused on clarifying its structures, with priority now given to private sector fund-raising and the recruitment of professionals in the marketing structure with explicit fund-raising expertise.

15. Another important activity was the review and simplification of the planning tool with National Committees, the Joint Strategic Plan (JSP), previously referred to as the Joint Planning Process. As envisioned by the PSTF, the Geneva Regional Office, PSD and National Committees will use the JSP in the development of the annual and medium-term strategic business plans.

B. 2003 objectives

16. PSD objectives are to achieve (tables 1 and 1A):

(a) Net proceeds from UNICEF private sector fund-raising activities of $334 million (regular resources of $169 million and other resources of $165 million);

(b) Card sales volume of 134 million cards;

(c) Gross proceeds from product sales of $134 million;

(d) Net consolidated income of $360.9 million, of which $195.9 million for regular resources and $165 million for other resources.

Table 2. Summary of expenditures -

2001 approved budget, 2001 actual, 2002 approved budget, 2002 latest estimates and 2003 proposed budget

(In millions of United States dollars)

	2001 Approved budget a/	2001 Actual	2002 Approved budget b/	2002 Latest estimates	2003 Proposed	Variance 2003 vs. 2002 Latest estimates $	%
MARKETING							
Commissions - field offices	1.9	1.2	1.5	1.2	1.4	0.2	16.7
Cost of goods delivered	31.5	23.5	28.6	25.8	29.7	3.9	15.1
Operating expenses	19.7	20.6	20.0	23.9	19.7	(4.2)	(17.6)
Subtotal	53.1	45.3	50.1	50.9	50.8	(0.1)	(0.2)
SUPPORT SERVICES							
Operating expenses	18.0	15.2	17.8	17.3	15.9	(1.4)	(8.1)
INVESTMENT FUNDS	14.9	12.8	14.3	14.0	14.2	0.2	1.4
TOTAL EXPENDITURES	86.0	73.3	82.2	82.2	80.9	(1.3)	(1.6)

a/ In accordance with Executive Board decision 2001/5, paragraph.2 (E/ICEF/2001/ /Rev.1), the approved budget reflected is the low projection. (column I, table 7 of document E/ICEF/2001/AB/L.1).

b/ As approved by the Executive Board (decision 2002/6, paragraph 2).

C. 2003 strategies

17. PSD strategies for 2003 include:

(a) **Organization and service**:

(i) The enhanced JSP will form the basis for progressive strategic action plans in key areas of growth opportunity. These plans will be based on a comprehensive assessment of each market and a focus on agreed priorities;

(ii) Brand development and the medium-term strategic plan (MTSP)will be at the heart of PSD income-generating strategies in 2003;

(iii) Under the leadership of the recently appointed PSD Deputy Director for Fund-raising, emphasis will be placed on the launching of strategic initiatives that draw on the strength of the UNICEF brand, the existing centres of excellence within PSD and National Committees, and the development of the desired income sources identified in the fund-raising strategy;

(iv) Implementation of the jointly developed fund-raising strategy that aims to achieve and sustain the desired income growth dictated by the medium-term goals and expand into new donor segments will be launched by PSD and National Committees;

(v) Execution of the sales strategy by PSD and National Committees will continue;

(vi) PSD will review the guidelines and criteria for allocation of PSD investment funds;

(vii) The cycle, participation and objectives of the strategic technical meetings will be strengthened;

(b) **Fund-raising**:

(i) Pledge or committed donors remain the biggest source of growth. The main objective will be to increase investments and focus on this segment, and to test and develop new offers that are compelling to donors in a highly competitive field;

(ii) Direct mail appeals currently represent the highest contributing segment. As such, performance will be improved by concentrating on tactics to increase the overall numbers of donors, boost and nurture the numbers of regular or loyal donors, and raise the donation values per donor;

(iii) Gifts have been identified as a key opportunity for income generation. Focused investment and training to build capacity and expertise in this segment are the principal forms of support planned for the year;

(iv) Legacy income continues to grow steadily. Training, research and investments remain the foundations for building a targeted and successful programme;

(v) Changing consumer, employee and investor attitudes uphold a stronger interest on the part of the business community for more ethical investments and socially responsible business practices. Therefore, cause-related marketing and combined advocacy and fund-raising programmes will be exploited by

PSD and the National Committees with the corporate community, with an emphasis on regular resources income potential at a global level;

(c) **Sales**:

(i) Corporate customers represent the biggest potential for growth in volume and value. This is particularly true for leading companies looking to project their brand and values. PSD and National Committees continue to exploit the Customized Design Service and to hire professionals who are fully dedicated to developing and growing this market segment;

(ii) The emphasis in distribution will be to strengthen existing channels through improving database management, extending telemarketing, lifting response rates and average order values for consumer catalogue sales, negotiating new partnerships with leading players in the retail field, and upgrading internet capacity to service both corporate and consumer segments;

(iii) Product offers will be tailored increasingly to meet the varying demands of specific sales channels and target audiences;

(iv) Increasing net revenues from sales also will be explored by improved sales forecasting and lower inventory exposure through early gauging of market trends and, thus, better adaptation of production to demand at the right time;

(v) Promotion and point of sale materials will be developed in line with the new visual identity of the UNICEF brand;

(vi) Lessons learned from the test of the Expanded Gift Line in selected markets in 2003 will guide related line development for 2004 for all major markets.

D. Investment funds

18. PSD intends to continue providing partners with funds to support their initiatives in their mission to generate more funds for UNICEF through the rollout of recently finalized sales and private sector fund-raising strategies. The main thrust in the use of these investment funds will be the implementation and rollout of the now final fund-raising and sales strategies.

19. For 2003, investment funds amounting to $14.2 million are proposed, which is $0.2 million (1.4 per cent) higher than the 2002 latest estimates and $0.1 million (0.7 per cent) lower than the 2002 approved budget. The investment funds proposed for 2003 reflect the funding requirements for supporting National Committees' implementation of fund-raising and sales initiatives, as agreed during the JSP process.

Table 3. Marketing: expenses for 2001 actual, 2002 approved budget, 2002 latest estimates and 2003 proposed budget

(In thousands of United States dollars)

Expenditures	2001 Actual	2002 Approved budget	2002 Latest estimates	2003 Proposed budget	Changes 2003 vs. 2002 Latest estimates	
					$	%
Commissions - field offices	1 217	1 496	1 235	1 386	151	12.2
Operating expenses						
International posts	3 438	4 387	4 081	4 369	288	7.1
Local posts	1 963	1 909	1 909	1 757	(152)	(8.0)
Other post-related costs a/	557	1 100	711	271	(440)	(61.9)
Staff training	67	97	87	108	21	24.1
Other staff costs b/	417	268	263	271	8	3.0
Consultants	20	255	278	251	(27)	(9.7)
Travel	653	896	799	915	116	14.5
Other operating expenses c/	356	379	507	531	24	4.7
Furniture and equipment d/	24	31	52	31	(21)	(40.4)
Research and development	1 915	2 695	2 600	2 892	292	11.2
Field office expenses - gift sales	3 012	3 465	3 389	3 589	200	5.9
Field office expenses - PSFR	2 074	2 822	2 467	2 864	397	16.1
Regional support centre expenses	1 050	1 255	1 224	1 383	159	13.0
Provision for doubtful accounts	5 074	500	5 500	500	(5 000)	(90.9)
Subtotal operating expenses	20 620	20 059	23 867	19 732	(4 135)	(17.3)
Total expenses	21 837	21 555	25 102	21 118	(3 984)	(15.9)

PSFR = private sector fund-raising.

a/ Terminination indemnity and reimbursement of taxes.

b/ Short-term assistance , staff welfare and overtime.

c/ Contractual services, rent and maintenance of premises, rental and maintenance of furniture, equipment, communications, supplies and materials, hospitality and miscellaneous services.

d/ Office equipment, computer equipment and computer software.

E. Analysis of 2003 proposed budget

20. Net proceeds from UNICEF private sector fund-raising activities for 2003 are projected at $334.0 million, of which $169.0 million are for regular resources and $165.0 million for other resources. This represents a decrease of $38.5 million (10.3 per cent) compared to the 2002 latest estimates. However, when compared to the 2002 latest estimates, excluding the single large legacy contribution of $53.5 million, the 2003 proposed budget shows an increase of $15.0 million (4.7 per cent).

21. Gross proceeds from card and gift sales for 2003 are projected to range from a low of $131.0 million to a high of $137.0 (see table 7). The medium projection is $134.0 million, an increase of $4.0 million (3.1 per cent) over the 2002 latest estimates.

22. Sales volume for 2003 is projected at 134 million cards, an increase of 1 million cards (0.8 per cent) over the 2002 latest estimates.

23. Net proceeds from card and gift sales for 2003, after deducting the amounts retained by National Committees, commissions paid to consignees and direct expenses at UNICEF field offices ($38.2 million), are projected at $95.8 million, $2.8 million (3.0 per cent) higher than the 2002 latest estimates.

24. Other income for 2003 is projected at $7.0 million, the same as the 2002 latest estimates. This includes royalties from the sale of licensed products, donations generated from brochure and order forms, bank interest and discounts on purchases.

25. Total operating expenses for the Marketing Group in 2003 are projected at $19.7 million (see table 3), a decrease of $4.1 million (17.3 per cent) when compared to the 2002 latest estimates and a decrease of $0.3 million (1.6 per cent) when compared to the 2002 approved budget. The 2002 estimated operating expenses include a higher provision for doubtful accounts needed to write off a receivable initially reported as regular resources, but subsequently allocated as other resources. PSD has strengthened controls to avoid similar occurrences in the future.

III. Support services

A. Introduction

26. This group provides support to PSD income-generating activities. It includes the cost of the Director’s Office, Operations Support Services, and Finance and Administration.

B. 2003 objectives

27. The objectives of support services are:

(a) To provide financial, operational and information services support to management;

(b) To improve customer service to partners by delivering goods in a timely, accurate and cost-effective manner;

(c) To provide support and expertise to joint strategic planning, in collaboration with National Committees;

(d) To analyse profitability by revenue stream and to disseminate market, sales channel and fund-raising activity information for Brand Groups and National Committees;

(e) To improve forecasting of sales and fund-raising projections by utilizing quarterly/monthly reviews reported by National Committees.

C. 2003 strategies

28. The strategies to achieve the above objectives are:

(a) To use the master calendar to further improve customer service through the timely and regular review of the status of production and deliveries against plan, and the use of the new streamlined structure of the Operations Support Services as well as related processes;

(b) To review and enhance production and distribution processes and make them more effective and efficient by increasing production based on demand; and to reinforce the role of the production review process to reduce delivery to sales ratio and, therefore, cost of goods;

(c) To investigate alternative procurement and sourcing strategies for non-paper products and alternative production methods based on best industry practices;

(d) To institutionalize the financial reporting package submission by each National Committee;

(e) The periodic review of the annual plans with the information reported in the quarterly reports by the National Committees.

D. Analysis of 2003 proposed budget

29. Total expenses for support services are projected at $15.9 million, a decrease of $1.4 million (8.2 per cent) when compared to the 2002 latest estimates (see table 4). This is due mainly to the implementation of the revised leaner structure and consolidation of functions in Geneva, and after accounting for higher expenses due to the weaker United States dollar ($1.3 million).

Table 4. Support services: expenses for 2001 actual, 2002 approved budget, 2002 latest estimates and 2003 proposed budget

(In thousands of United States dollars)

Expenditures	2001 Actual	2002 Approved budget	2002 Latest estimates	2003 Proposed budget	Changes 2003 vs. 2002 Latest estimates	
					$	%
International posts	4 597	4 795	4 525	4 487	(38)	(0.8)
Local posts	2 691	2 938	2 879	2 477	(402)	(14.0)
Other post-related costs a/	715	1 099	864	244	(620)	(71.8)
Staff training	21	25	19	19	-	-
Other staff costs b/	263	233	229	202	(27)	(11.8)
Consultants	88	110	66	75	9	13.6
Travel	270	314	256	303	47	18.4
Operating expenses c/	3 796	7 544	7 760	7 376	(384)	(4.9)
Furniture and equipment d/	2 461	155	107	134	27	25.2
Regional support centre expenses	315	544	554	535	(19)	(3.4)
Total expenses	15 217	17 757	17 259	15 852	(1 407)	(8.2)

a/ Termination indemnity and reimbursement of taxes.
b/ Short-term assistance, staff welfare and overtime.
c/ Contractual services, rental and maintenance of premises, rental and maintenance of furniture, equipment, communications, supplies and materials, hospitality and miscellaneous services.
d/ Office equipment, computer equipment, computer software and plant equipment.

IV. Regional support centres and UNICEF field offices

A. Introduction

30. Gross proceeds generated by UNICEF field offices from PSD activities in 2002 are projected at $23.5 million, with costs estimated at $11.3 million (excluding investment funds), resulting in a net operating income of $12.4 million (including other income of $0.2 million).

B. 2003 objectives

31. The objectives are:

(a) To provide support, assistance and training to the UNICEF field offices in the priority countries in Latin America, Asia, Middle East and Africa;

(b) To achieve:

(i) Card sales of 15.5 million;

(ii) Gross proceeds of $11.8 million from card and gift sales, and $14.8 million from private sector fund-raising.

C. 2003 strategies

32. The strategies to achieve the above objectives are:

(a) To support donor acquisition and corporate appeals for private sector fund-raising activities, and to identify and support regional strategies in the development of new distribution channels for card and gift sales;

(b) To provide support to markets and monitor implementation of the 2003 work plan and budget;

(c) To organize regional workshops for sales and private sector fund-raising activities to review 2002 results, establish strategies, and provide training and support;

(d) To conduct and assess pilot projects in Latin America's most promising markets (Mexico and Brazil) for more decentralized product development and local sourcing.

D. Analysis of 2003 proposed budget

33. For 2003, UNICEF field offices are projected to generate $26.6 million in gross proceeds, an increase of $3.1 million (13.0 per cent) over the 2002 latest estimates (see table 5). This increase is attributable primarily to higher proceeds from private sector fund-raising ($1.8 million) due to the expansion of fund-raising activities in Brazil, Mexico and China, as well as higher proceeds from sales ($1.3 million) in key markets of Latin America and Asia.

34. Total operating expenses for UNICEF field offices and PSD regional support centres in 2003 are projected at $8.4 million, an increase of $0.7 million, or 9.7 per cent over the 2002 latest estimates. This increase is due to mandatory staff costs, three additional posts and fund-raising costs (e.g. house list, expansion of donor base).

35. For 2003, the net operating income from UNICEF field offices from both sales and private sector fund-raising activities (excluding investment funds) is projected at $15.0 million, an increase of $2.6 million over the 2002 latest estimates. This increase is a result of a higher net operating income from private sector fund-raising ($1.3 million) and sales ($1.3 million).

V. Medium-term plan, 2004-2007

36. Table 6 presents the medium-term plan for PSD for the period 2004-2007. The plan is based on market trends, the previous years' financial results, and strategic plans developed and implemented in cooperation with National Committees and UNICEF field offices in PSD priority countries. In comparison to the PSD business plan (annex III), the figures presented in the medium-term plan are conservative. The business plan reflects targets that PSD hopes to achieve, whereas the medium-term plan is definitive.

37. PSD objectives, as per the medium-term plan, are to achieve by 2007:

(a) Net consolidated income for UNICEF from the private sector of $404.4 million, comprising $239.4 million in regular resources and $165.0 million for other resources;

(b) Net operating income from private sector fund-raising of $200.0 million for regular resources;

(c) Net operating income from private sector fund-raising of $165.0 million for other resources;

(d) Card sales volume of 135 million;

(e) Gross proceeds from card and gift sales of $145.0 million.

Table 7. Range of budgeted income and expenditures for the fiscal year 1 January-31 December 2003

(In millions of United States dollars)

	I Low projection	II Medium projection	III High projection
Budgeted income			
Gross proceeds - product sales	131.0	134.0	137.0
Deduct: National Committees' retention a/	32.8	33.2	34.2
Net proceeds	98.2	100.8	102.8
Add: Other income - net (table 1A)	6.8	7.0	7.5
Net proceeds - product sales	105.0	107.8	110.3
private sector fund-raising - regular resources (table 1A)	165.0	169.0	174.0
Total net proceeds - regular resources	270.0	276.8	284.3
Budgeted expenditures			
Commissions - field offices	1.2	1.4	1.6
Cost of goods delivered	28.6	29.7	30.5
Marketing expenditures	19.2	19.7	20.4
Support services	15.4	15.9	16.4
Investment funds	14.2	14.2	15.0
Total expenditures - consolidated (table 2)	78.6	80.9	83.9
Net consolidated income - regular resources (table 1)	191.4	195.9	200.4
Add: Other resources - private sector fund-raising (table 1)	160.0	165.0	170.0
Net consolidated income - regular resources and other resources	351.4	360.9	370.4

a/ Excludes field office commissions - budgeted in expenditures.

VI. Draft resolutions

38. The draft resolutions for Executive Board approval relating to the PSD budget for 2003 are presented below.

A. Private Sector Division budgeted expenditures for the 2003 season

The Executive Board

1. *Approves* for the fiscal year 1 January to 31 December 2003 budgeted expenditures of $80.9 million as detailed below and summarized in column II of table 7 to document E/ICEF/2003/AB/L.3:

	(In millions of United States dollars)
Commissions — field offices	1.4
Cost of goods delivered	29.7
Marketing expenditures	19.7
Support Services	15.9
Investment funds	14.2
Total expenditures, consolidated	**80.9**

2. *Authorizes* the Executive Director:

(a) To incur expenditures as summarized in column II of table 7 to document E/ICEF/2003/AB/L.3 and to increase expenditures up to the level indicated in column III of the same table should the apparent proceeds from card and gift sales and/or private sector fund-raising increase to the levels indicated in column III, and accordingly, to reduce expenditures below the level indicated in column II to the extent necessary, should the net proceeds decrease;

(b) To redeploy resources between the various budget lines (as detailed in paragraph 1 above) up to a maximum of 10 per cent of the amounts approved;

(c) To spend an additional amount between Executive Board sessions, when necessary, up to the amount caused by currency fluctuations, to implement the 2003 approved work plan.

B. Budgeted income for the 2003 season

The Executive Board

Notes that for the period 1 January to 31 December 2003, PSD net proceeds are budgeted at $276.8 million (regular resources) as shown in column II of table 7 to document E/ICEF/2003/AB/L.3.

C. Policy issues

The Executive Board

1. *Renews* investment funds with $14.2 million established for 2003;

2. *Authorizes* the Executive Director to incur expenditures in the 2003 fiscal period related to the cost of goods delivered (production/purchase of raw materials, cards and other products) for the 2004 fiscal year up to $30.5 million as indicated in the PSD medium-term plan (see table 6 of document E/ICEF/2003/AB/L.3).

D. Medium-term plan

The Executive Board

Approves the PSD medium-term plan as reflected in table 6 to document E/ICEF/2003/AB/L.3.

Annex I

Private Sector Division: summary of post changes proposed for 2003

Detail	Posts/levels D2	D1	P5	P4	P3	P2	P1	Total IP	NO	GS	Grand total
Base PAT 2002	1	4	8	20	29	12	0	74	19	97	190
Establish and abolish											
Marketing								0			0
Support services								0			0
RSCs and UNICEF field offices						1		1		2	3
Total change, PSD	0	0	0	0	0	1	0	1	0	2	3
Reclassifications, PSD											
Marketing			1	-1				0			0
Total reclassification, PSD	0	0	1	-1	0	0	0	0	0	0	0
Total changes and reclassification	0	0	1	-1	0	1	0	1	0	2	3
Total, Proposed 2003	1	4	9	19	29	13	0	75	19	99	193

IP = international Professional; NO = national officer; GS = General Service;
PAT = post authorization table; RSCs = regional support centres.

Annex II

Private Sector Division comparison of posts: 2002 approved budget versus 2003 proposed budget

	Posts/levels							Total			Grand
	D2	D1	P5	P4	P3	P2	P1	IP	NO	GS	total
Marketing											
Approved 2002		3	3	11	12	4		33		21	54
Proposed 2003		3	4	10	12	4		33		21	54
Change	0	0	1	-1	0	0	0	0	0	0	0
Support services											
Approved 2002	1	1	4	5	16	5		32		37	69
Proposed 2003	1	1	4	5	16	5		32		37	69
Change	0	0	0	0	0	0	0	0	0	0	0
Total, PSD headquarters											
Approved 2002	1	4	7	16	28	9	0	65	0	58	123
Proposed 2003	1	4	8	15	28	9	0	65	0	58	123
Change	0	0	1	-1	0	0	0	0	0	0	0
RSCs and UNICEF field offices											
Approved 2002			2	3	1	3		9	19	39	67
Proposed 2003			2	3	1	4		10	19	41	70
Change	0	0	0	0	0	1	0	1	0	2	3
Total, PSD headquarters, RSCs and UNICEF field offices											
Approved 2002	1	4	9	19	29	12	0	74	19	97	190
Proposed 2003	1	4	10	18	29	13	0	75	19	99	193
Change	0	0	1	-1	0	1	0	1	0	2	3

IP = international Professional; NO = national officer; GS = General Service;
ROs = regional offices; RSCs = regional support centres.

Annex III

Private Sector Division business plan, 2003-2005

1. The Executive Board, at its January 2002 session, requested the Private Sector Division (PSD) to submit, as part of its work plan and budget proposal for 2003, a comprehensive business plan to be updated annually (E/ICEF/2002/6, decision 2002/6).

I. Introduction

2. This business plan has been formulated within the broader corporate plan and strategic goals of UNICEF, including:

(a) The **medium-term strategic plan (MTSP)**, which provides the medium-term funding requirements for the organization, including the target to be raised from the private sector. It also affirms organizational priority areas, which support work planning in general with the National Committees and their communication with donors;

(b) The **new brand model for UNICEF**, which defines the vision, positioning, values and essence of UNICEF. It provides the framework for the relationship between the brand model, the MTSP, communication and resource mobilization strategies;

(c) The **Joint Strategic Plan (JSP) process**, which provides a strategic assessment and forward-looking action plan for each National Committee in terms of income generation, leadership, advocacy, management of financial contributions and communications. For income generation through sales and fund-raising, the JSP provides insight into the strengths of each National Committee relative to the state of the market and business development, as well as to the Committee's competitive position. The process then identifies and assesses specific areas for revenue growth-building on differing assumptions related to the external environment and available human and financial resources;

(d) The **global fund-raising strategy**, which will support continued income growth, generate sustainable income and facilitate expansion into new donor market segments. The strategy incorporates best industry practices related to donor recruitment and successive upgrading with the objective of maximizing donor "life-time value". It includes the focused recruitment of donors, and strategies on cultivating the donors into committed giving or major donor support levels, ultimately aiming for UNICEF to become the beneficiary of the donor's private bequest. The strategy addresses the UNICEF global donor community within the private sector, i.e. individual donors, corporations and institutional partners. For corporations, there is renewed emphasis on alliances, while for institutional partners, it is anticipated that cause-related marketing programmes, linked to highly leveraged sports and/or celebrity driven media events, will play a more predominant role;

(e) The **sales strategy**, which directs the UNICEF sales pitch to a more diversified and expanded customer base. It incorporates a more flexible product offer tailored to meet specific market needs and aims to increase sales to large corporations.

3. One of the principal drivers of the business plan process in the future will be the JSP. By October 2002, few JSPs had been completed for the analysis to be included in the 2003-2005 business plan. The JSP process will transform joint strategic planning, resulting in more targeted resource allocation, including that of investment funds. Therefore, the quantification and validation of income goals for those National Committees which have not yet completed the JSP is, to a large extent, reached through analysis of historic performance trends, supplemented with simulated “bottom-up” opportunity analysis. The trend analyses have been reviewed and modified to ensure that they reflect genuine growth opportunities within specific market segments.

II. Income by revenue source

4. The UNICEF objective is to raise $450 million in net fund-raising income and $64 million net operating income from the sale of greeting cards and gifts from the private sector by 2005. The focus of PSD, in line with the key finding of the Global Private Sector Fund-raising Task Force, will be fund-raising, supported by sales.

5. PSD recognizes that the target of $450 million from fund-raising is ambitious, an increase of $123 million above the actual 2001 results. It is anticipated that this goal is achievable building on the strength of the UNICEF brand, the wealth of knowledge and skills base within the UNICEF family, increased cooperation between National Committees and UNICEF, and the introduction of various new strategic initiatives.

6. In any forecast, there are inherent limitations, especially the impact of extraneous factors, notably the political and economic environment in key markets and the fluctuation in exchange rates. Historic trends also are driven by emergency-related fund-raising, which do not allow for proper benchmarking owing to the very nature of these campaigns. In future, however, PSD can progressively build its revenue projections on the aggregate results of the individual JSPs that, already in the next business plan, will allow for fuller risk and opportunity assessments and “bottom-up”-supported, realistic revenue projections.

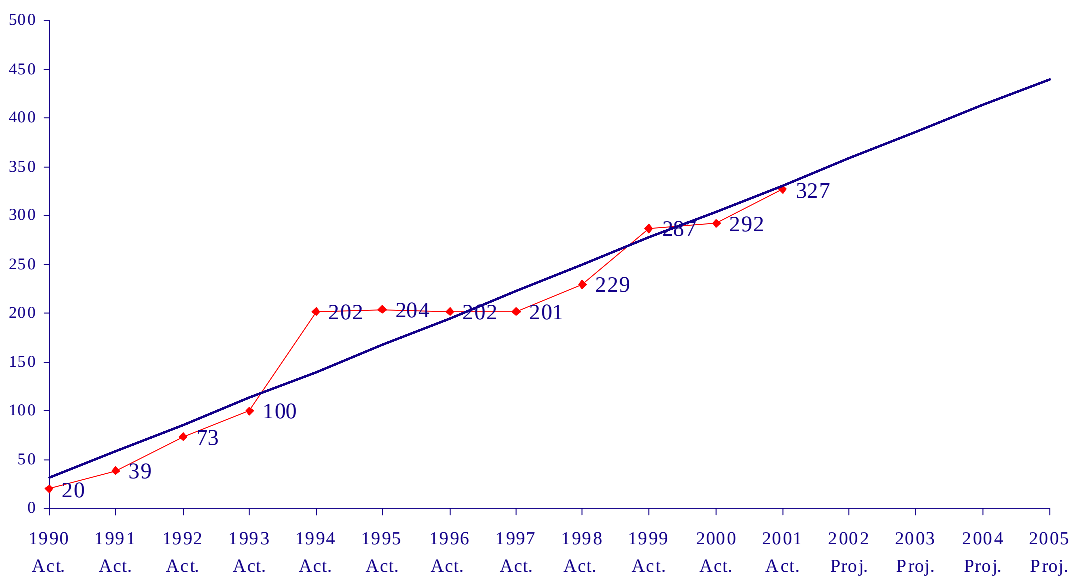
7. In the area of new initiatives, PSD is implementing the recently completed sales strategy, which reaches out to a broader buying audience while targeting the more profitable corporate market. The imminent introduction of the new fund-raising strategy will help UNICEF to upgrade its existing donors and communicate with them more effectively through the use of increasingly sophisticated fund-raising techniques. Analysis of the UNICEF donor databases has highlighted the potential and the risks related to continuing to focus exclusively on current strengths. Review of the broader competitive trends has identified the types of donors and markets that offer the highest overall growth potential. Focus will be placed on improving the long-term value of the donor bases in order to achieve and sustain the desired revenue growth. Initial analysis has identified innovative opportunities to explore.

A. Private sector fund-raising

Revenue targets

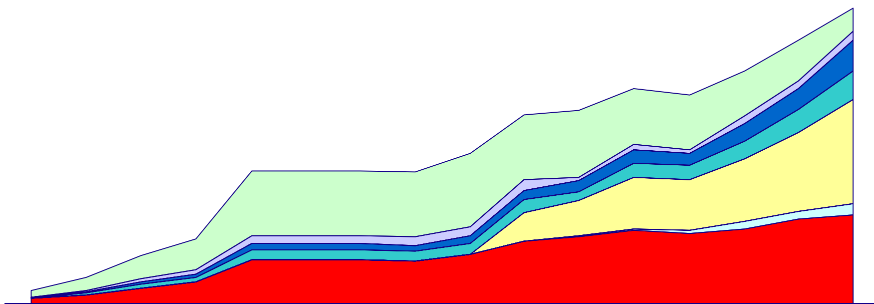
8. The three tables below provide a breakdown of the overall private sector fund-raising income growth targets by year and by source of income. Table 1 shows net proceeds received from partners from 1990 to 2001 (per cash accounting reports); table 2 shows the total net proceeds for 1990-2001 (actual) and 2002-2005 (projected) by source; and table 3 shows the percentage share of projected total net proceeds by source for the period 2002 to 2005.

Table 1
Total PSFR net proceeds received from National Committees
(In millions of United States dollars)



PSFR = private sector fund-raising; Act. = actual; Proj. = projected.

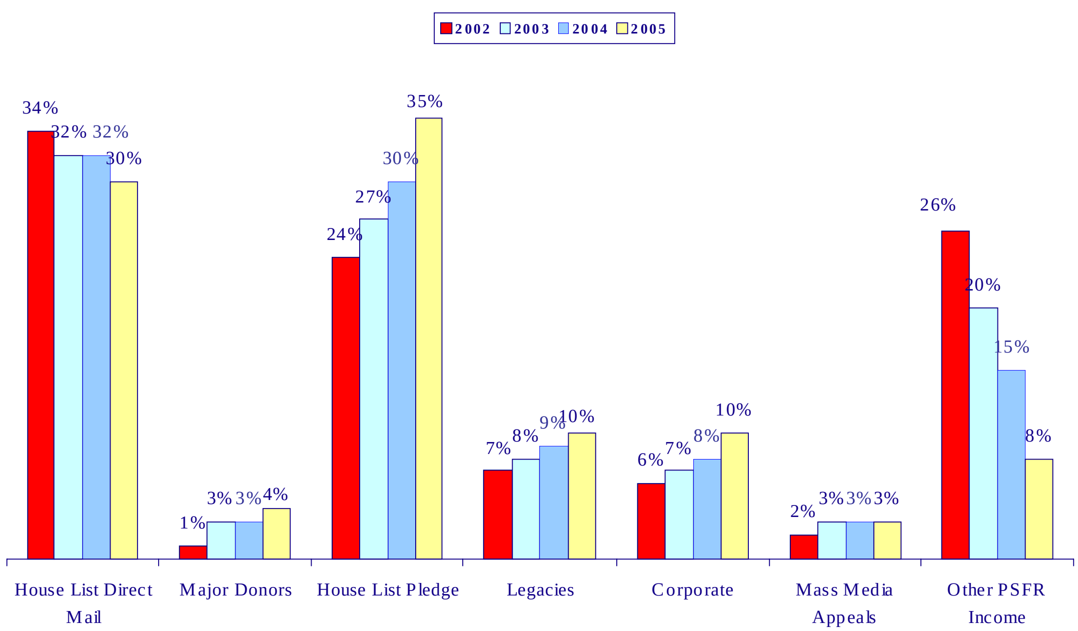
Table 2
PSFR total net proceeds :1999-2001 (actual) and 2002-2005 (projected)
(In millions of United States dollars)



	1990 Act.	1991 Act.	1992 Act.	1993 Act.	1994 Act.	1995 Act.	1996 Act.	1997 Act.	1998 Act.	1999 Act.	2000 Act.	2001 Act.	2002 L. Est.	2003 Proj.	2004 Proj.	2005 Proj.
Other PSFR Income	10	19	36	48	99	100	100	98	112	98	102	85	83	71	60	36
Mass Media Appeals	1	2	4	6	12	12	12	12	14	17	6	7	6	11	12	14
Corporate	1	2	4	5	10	10	10	10	11	14	15	20	19	25	32	45
Legacies	1	3	5	7	14	14	14	14	16	20	15	23	22	28	36	45
House List Pledge	0	0	0	0	0	0	0	0	0	42	53	78	77	96	120	158
Major Donors	0	0	0	0	0	0	0	0	0	1	1	3	3	11	12	18
House List Direct Mail	7	13	24	33	67	67	67	66	76	95	102	111	108	114	128	135

PSFR = private sector fund-raising; Act. = actual; L.Est. = latest estimates; Proj. = projected.

Table 3
Percentage of PSFR total net proceeds by source



PSFR = private sector fund-raising

Rationale

9. **Direct mail**. Direct mail is the foremost method used by UNICEF to raise funds from individual donors generating small one-off donations. Approximately 35 per cent ($110 million) of the fund-raising income in 2001 were raised through direct mail appeals sent to 5 million to 6 million donors. This technique is expected to remain an important contributor, growing to $135 million (30 per cent) by 2005. The anticipated growth is based on three key strategies:

(a) **Enhancement of UNICEF donor performance**. Current benchmarking of National Committees' donor databases reveals:

(i) Higher than industry attrition rates, i.e. UNICEF loses too many donors from one year to the next. In some cases, this rate is 8 points above industry average. A marginal reduction of 1.5 points in this rate would result in a 7 per cent growth in gross income without any additional costs to UNICEF;

(ii) The higher the first donation and the speedier the second gift, the stronger the donor's loyalty will be and, consequently, the long-term value securing donors which offer the best long-term value;

(b) **The sophistication of fund-raising techniques**. National Committee donor databases are large enough to warrant more focused segmentation and, consequently, more tailored fund-raising programmes. Some National Committees operate programmes that target "high-value donors", thus ensuring loyalty and long-term value. Similar initiatives are being launched with the objective of upgrading donors to more profitable programmes;

(c) **Growth in the total number of donors**. The reduced attrition rates referred to above will allow current investments in direct mail to be rechanneled to support the overall growth in the number of donors.

10. **Pledge donors**. Pledge donors are committed, loyal and (very) profitable givers, offering higher, sustained and predictable income for regular resources programmes. Pledge donor programmes are receiving increased investment focus and represent the biggest source of growth. Pledge donors currently generate approximately $80 million, i.e. 25 per cent of private sector fund-raising income, and are projected to double by 2005, representing $158 million, or 35 per cent of the total.

11. The anticipated overall growth to 35 per cent is achievable based solely on natural growth as observed in the industry. Comparable benchmarks for pledge donors are 10 to 12 per cent of a donor database generating 30 to 35 per cent of gross income. The new initiatives envisaged in the fund-raising strategy will help UNICEF to break ground in developing unique, attractive and powerful offers for donors and to become more competitive.

12. **Major donors**. Gifts from major donors can be categorized in three groups: minor gifts; major gifts; and "mega-gifts". Minor gifts (up to $10,000) can be raised from existing donors by appealing to those with specific (higher) giving patterns. Major gifts (between $10,000 and $100,000) can be raised from existing donors, but more often would come from new individuals not yet on file. Mega-gifts (above $100,000), however, would rarely come from current donors. Such gifts often come from international philanthropists and require a high level of involvement. With the

shift in wealth from institutions to individuals, major gifts will become an important source of income.

13. The strength of UNICEF to date has been in raising moderate gifts from large audiences — little from many. Currently, only 1 per cent ($3 million) of income comes from major gifts from private individuals. By 2005, given the market's overall potential, focused investment and training will help to increase this revenue source to 4 per cent of the total private sector fund-raising income ($18 million).

14. **Legacies**. Legacy income has grown steadily and at present represents a crucial and highly cost-effective source of revenue for most leading charities other than UNICEF. Donors and supporters increasingly perceive a legacy as a powerful and effective way to invest in causes that are important to them.

15. Recent usage and attitudes surveys conducted in countries as different as France, Germany and Japan, and based on national representative samples, show that 7 to 10 per cent of UNICEF donors would consider giving a legacy to a not-for-profit organization.

16. In 2001, legacy donations to UNICEF amounted to $23 million, i.e. 6 per cent of total private sector fund-raising income (excluding the extraordinary $54 million Gaffé legacy). The fund-raising strategy, therefore, calls for increased investments and focus on legacies in the key markets where opportunities have been identified. Planned strategies are expected to grow legacy income to a projected $45 million, or 10 per cent of total fund-raising revenues, by 2005.

17. **Corporate fund-raising**. Increasingly, corporations have demonstrated a strong interest in partnership with UNICEF, which continues to be recognized as "the" global brand representing children.

18. Strategies will place an emphasis on building capacity among key markets to enter into and implement successful fund-raising alliances with the corporate sector. PSD will work with the key markets to "grow" pre-existing national-level relationships into more lucrative regional or global partnerships. This strategy also will place an emphasis on developing a stronger awareness within the UNICEF family of cause-related marketing and sponsorships as fund-raising tools and the provision of training in these two areas.

19. Corporate fund-raising is projected to increase from $20 million in 2001 (6 per cent of private sector fund-raising income) to $45 million in 2005 (10 per cent). This growth reflects an increasing level of interest in corporate alliances by key markets.

20. **Mass media appeals**. Mass media appeals complement direct mail as a good source of new donors and at times of emergencies, which provide an acceptable return on investment both in numbers of donors and in contributions.

21. UNICEF currently raises $6 million (2 per cent of private sector fund-raising income) per annum from mass media appeals. By 2005, this income is expected to grow to $14 million (3 per cent) due mainly to a higher level of preparedness for global outreach during media-driven emergencies.

22. **"Other private sector fund-raising income"**. This category comprises income that has not been allocated to the six main fund-raising techniques defined above. In 2001, it amounted to $85 million (25 per cent of private sector fund-raising income). With more accurate allocation of income to the appropriate income

source, the share of “other private sector fund-raising income” should drop to $36 million (6 per cent) in 2005.

B. Sales of cards and gifts

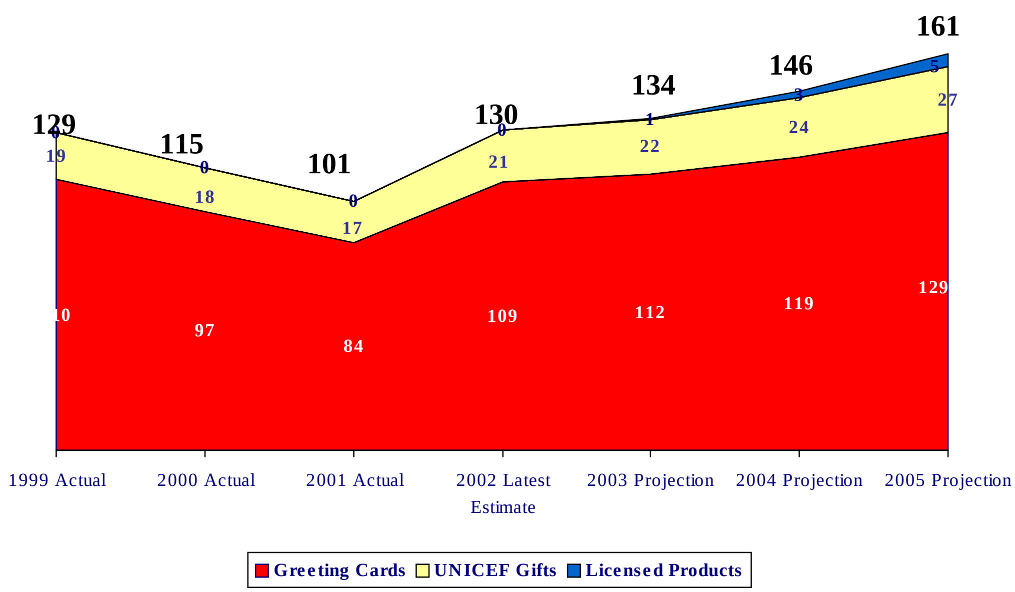
Revenue targets

23. Sales of cards and gifts are projected to grow from $115 million in 2001 to $161 million in 2005, a 40 per cent overall increase, or approximately 8 per cent per annum. The growth will come mainly from the corporate card sector and from enhanced, tailored collections for each sales channel in the consumer collection.

24. Net operating income from sales to UNICEF regular resources is projected to grow from $32 million in 2001 to $64 million, representing an increase of 100 per cent.

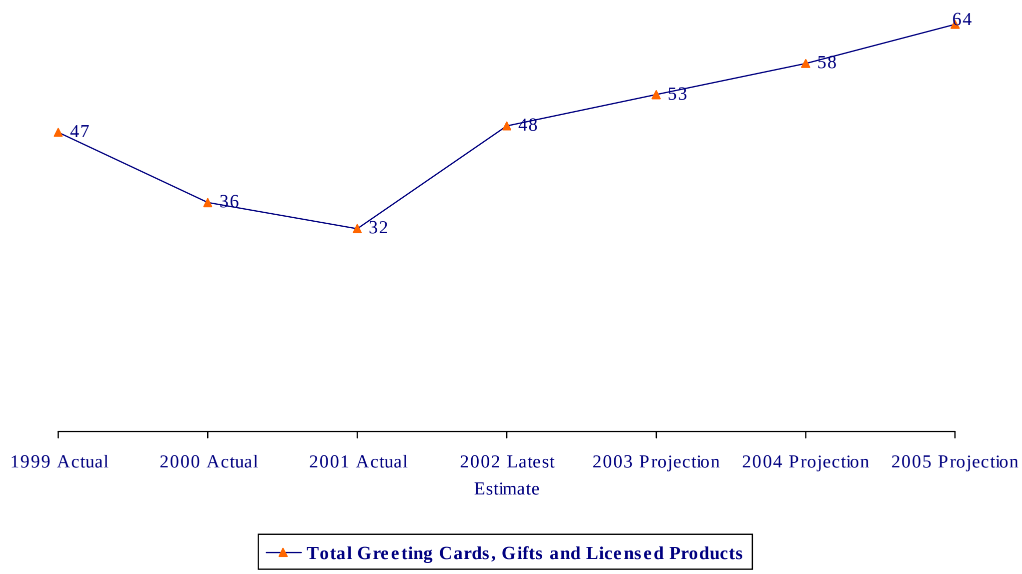
25. The table below indicates the overall growth by year and by source of income.

Table 4. Sales - Total gross proceeds by source:
1999 - 2001 actual and 2002-2005 projected
(In millions of United States dollars)



26. The following table depicts the planned revival of net proceeds from sales of cards and gifts resulting primarily from the implementation of the new sales strategy.

Table 5. Sales - Net operating income:
1999-2001 actual and 2002-2005 projected
(In millions of United States dollars)



Rationale

27. The ambitious growth objectives will be achieved through a specific focus in three areas.

(a) **Specific targeting of customers**:

(i) **Corporate customers**. The greatest overall potential for growth in card volume and gross revenues is in the corporate greeting card market. It is less saturated by competitors than the consumer market, particularly in terms of charitable cards, and offers higher profitability due to higher average order values and lower associated costs. The biggest growth opportunity lies in sales to large corporations. For this customer base, PSD has launched a customized design service. An increasing number of markets are investing in dedicated sales representatives with funding support from PSD. Their job is to focus on securing large orders from the corporate market;

(ii) **Private customers**. In the consumer market, PSD will increase penetration among 35- to 54-year-olds, a segment where UNICEF is currently underrepresented. This fine-tuning in targeting will be carried out while PSD maintains its current strong position among the slightly older customer base;

(b) **More flexible product offer**:

(i) Product offers will be tailored to meet the demands of specific sales channels, specifically those that appeal to a younger target audience. The traditional Spring Collection is being phased out and replaced by a Permanent Collection. This will reduce the number of new items introduced each year because more best-selling items will be repeated from year to year. It will be available year-round and serve as a "mother" collection for different sales campaigns, channels and occasions and to enhance seasonal offers;

(ii) PSD offers corporations a customized design service. In 2001, this new business generated additional sales of 1.4 million cards, with a gross income of more than $800,000;

(c) **Expanded distribution channels**:

(i) **Direct mail catalogue sales** will continue to be a strategic thrust area. National Committees will invest in further centralizing their databases, where applicable, and in expanding through specific and accurate prospect mailings. Emphasis will be placed on increasing response rates and average order value through techniques such as targeted repeat mailings and telemarketing;

(ii) **Retail sales** in several major markets represent the greatest opportunity for growth of sales to private consumers through partnerships, including wholesale, with major retailers and smaller independent chains. Therefore, the product offer will be tailored to meet the needs of the market and the merchandising requirements of the retailers;

(iii) **Volunteer sales** for those National Committees that rely heavily on this channel will be the focal point of targeted training and motivational sessions. Emphasis will also be placed on reducing distribution-to-sales ratios through improvements in sales forecasting and warehousing and distribution management, including computer linkages at the point of sale. This will improve the profitability of volunteer sales;

(iv) **Sales via the Internet** are growing rapidly, particularly corporate sales. Therefore, a focus should be placed on improving National Committees' sales web sites to make them more user-friendly, promoting web sales more actively and testing the development of a limited offer of e-greetings to large corporate clients;

(d) **Other**. The pricing, promotion, communication, merchandising and packaging of the PSD product line will be coherent and consistent with the UNICEF brand positioning, i.e. of a top quality offer that delivers much more to the purchaser and recipient due to the strong UNICEF brand and cause.

III. Conclusion

28. In addition to achieving net proceeds of $450 million from fund-raising and a net operating income of $64 million from sales, the anticipated outcomes of the business plan for 2003-2005 include:

(a) Diversified, reliable, sustainable and predictable income, with a significant shift to regular resources;

(b) Improved return on investments owing to stronger expertise and effectiveness;

(c) Maximized donor loyalty in terms of time and value through intense programmes of cultivation and retention;

(d) Increase in the absolute number of donors, particularly committed givers;

(e) Strong and engaging communication flowing from the new brand essence;

(f) Increased number of profitable sales distribution outlets;

(g) Enhanced and integrated partnerships with the corporate sector covering both fund-raising and sales activities.