

How One Social Marketing Organization Is Transitioning From Charity to Social Enterprise

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journals.sagepub.com/home/smq**Christopher Purdy¹****Abstract**

The financing model of the U.S. non-profit social marketing organization DKT International has changed dramatically since it was founded 31 years ago. In the early days, DKT was reliant on donor funding, and most of its products were heavily subsidized in order to reach low-income and marginalized populations. However, over the last three decades, DKT has become increasingly financially sustainable due to a fortuitous combination of clever marketing, rising incomes, and the stable and often declining cost of procuring contraceptives. This has been especially true in middle-income countries like Indonesia, Brazil, and Ghana but also in lower-income countries and regions like Ethiopia and Bihar, India. Because all DKT programs sell products, they earn revenue. Through a mixture of cost recovery and cross-subsidization strategies, DKT has been able to simultaneously serve a wide range of income segments while generating sales revenue that can offset costs and even turn a profit in some countries. Such profits are reinvested in activities that educate and shift behavior or deployed to other countries to start up new ventures. This article describes the transition experienced by DKT, from charity to social enterprise, and profiles country examples in three different stages of financial sustainability, providing potential lessons for other non-profits. As generating resources for non-profits becomes more challenging, organizations may wish to explore ways to generate revenues and increase cost recovery by monetizing the products and services they provide.

Keywords

Social marketing, social entrepreneurship, contraceptives, condoms

When DKT International started marketing and selling contraceptives in 1990, all of our products were subsidized, and DKT was mostly dependent on donors to fund our operations. This “classic” social marketing model was normal. Indeed, we had little choice: Our brands were new and unknown in their markets. We were operating in low-income countries where people could not afford to pay much for our products, and we required support to cover operational costs and the advertising, sales promotion, and education necessary to create demand. Additionally, thinking around financial self-sufficiency was so nascent in the charitable world that few managers even thought of such strategies. We were clearly in the charity camp, and the phrase “social enterprise” was not yet part of our lexicon.

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This paradigm changed due to several factors:

- *Shrewd Marketing and Distribution*: Consumers increasingly sought out DKT products due to their popularity and wide availability. Clever marketing, innovative product offerings, and accessible distribution channels met consumer needs and drove demand.
- *Rising Incomes*: Countries across the global South have generally prospered, resulting in higher per capita incomes. As a result, more people are able and willing to pay for contraception when they see the health and economic benefits it brings to their families.
- *Falling Contraceptive Prices*: The entry of new contraceptive manufacturers, especially in Asia, helped stabilize and drive down contraceptive prices over the last three decades.

As DKT adjusted to these changing paradigms, and in response to the often-fluctuating availability of donor funds, we carefully but methodically raised prices of our products to ensure that we maximized revenue while maintaining affordability and increasing sales volumes. This often included product and price segmentation that allowed for intra-program cross-subsidization: Profits from higher priced brands would be used to offset subsidies for lower-priced products. Before long, global sales revenue approached and exceeded the costs of the procured goods, and some DKT programs even started making a little bit of money. Several programs even become truly self-sufficient, covering a majority or all of their expenses. In 2005, global income from sales revenue exceeded income from donors for the first time (see Figure 1), and DKT never looked back. This phase of financial sustainability demonstrated the possibilities for DKT programs.

A new phase of sustainability started some 15 years after DKT's founding when our Brazil program sent back profits of \$30,000 to DKT headquarters in 2004 (a total of \$4.25 million has since been remitted to headquarters from Brazil). As other countries prospered and generated profits, several have followed suit, sending back real profits that are re-deployed to further DKT's mission among programs that require ongoing external or donor support. This inter-program cross-subsidization has proven highly effective; such funds have been used to start new programs in places like Mozambique, Nigeria, and Pakistan.

Over time, these changes have helped DKT shift from being a mostly donor dependent operation to one that is increasingly financially self-sustaining to the point that over 70% of DKT operating costs are now covered by sales revenue. Figure 1 reflects data from DKT's audited financials from 2001 through 2018. While important donor funds have more than doubled over this period, sales revenue has grown more than 10-fold.

The confluence of these developments resulted in DKT becoming more efficient in delivering contraception. In the early years, DKT's global cost per couple year of protection¹ (CYP) was over \$5.00. In 2006, this dropped to approximately \$2.00 per CYP, one of the lowest costs among family planning organizations. In 2018, DKT's cost per CYP dropped to \$1.57 overall (in Brazil, Indonesia, Mexico, the Philippines, and Vietnam, the cost per CYP was less than 25¢).

Changing Organizational Culture

While external forces were favorably reshaping the market environment for DKT, a concurrent shift in organizational culture also contributed to making DKT increasingly a social enterprise:

- In the early years, DKT recruited overseas staff mostly with non-governmental organization (NGO) and non-profit experience. That changed over time and eventually, DKT began attracting more staff from the world of commercial marketing, who had strong ideas about segmenting the market and developing profitable brands. DKT still has staff with NGO experience but they are fewer, as a percentage of overall staff, than was the case 10–20 years ago.

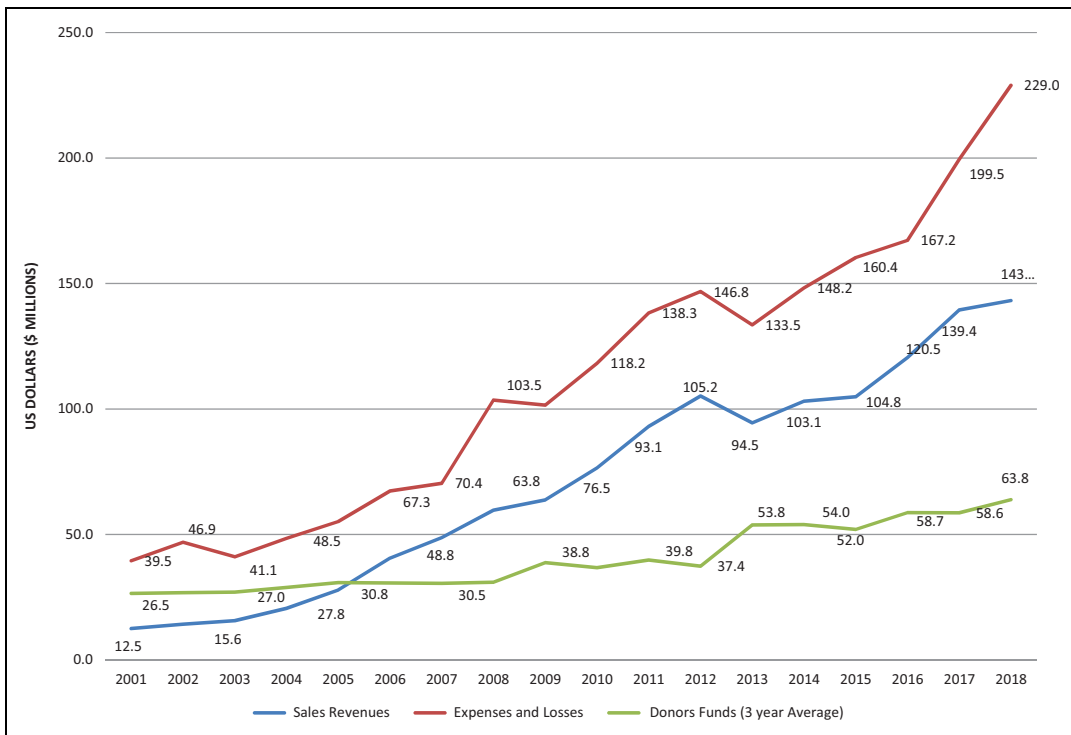


Figure I. DKT's key financials. *Note.* Sales revenue represents funds received from the sale and provision of goods and services. "Expenses and losses" is an auditing term that covers all program costs including the purchase of commodities, sales and marketing, personnel, office and administration, and losses. Sales revenue and donor income do not match total expenses because (1) some expenses are covered out of DKT discretionary resources that are not shown here, and (2) the donor funds are represented as a 3-year running average. This is due to the fact that, under U.S. accounting rules, any donor funds are recognized in full in the year they are awarded rather than in the year they are received. To avoid what would otherwise look like huge surges and drops in donor funding, this is presented as an average.

- DKT increased its organizational tolerance for risk-taking and innovation, becoming less wedded to the way things had always been done. DKT is and always has been highly decentralized and consequently gives its field staff significant autonomy to experiment and try things that they deem appropriate for their unique markets. Sometimes the field staff makes mistakes. When they do, they learn from them, adjust, and move on.
- DKT leadership and staff developed an aversion to "leaving money on the table." This refers to keeping prices lower than they needed to be and, therefore, forgoing sales that would otherwise be earned. This additional revenue gave DKT resources to help it expand into new markets and encourage its staff to engage in entrepreneurial activities.

More and more of our programs shifted from being pure charities, highly reliant on international donors, to social enterprises, organizations that employ and leverage efficiencies, infrastructures, and incentives of the commercial sector for a social goal or gain.

Shift to a New Model of Social Marketing

This use of innovative financing to transition from a highly subsidized model to a more entrepreneurial model of social marketing is more pronounced in countries that have experienced stronger and more

rapid economic growth. But all countries—at all stages of sustainability—are headed in the same entrepreneurial direction.

Although the precise formula and speed of transition vary from country to country, this process generally plays out in three stages: cost recovery, cross-subsidization, and genuine financial sustainability. Different DKT programs are in different stages—or combination of stages—as they move through this spectrum. How quickly a program reaches sustainability has much to do with the general economy of a given country. Where per capita incomes are higher, pricing can be pegged to a point where sales revenues cover procurement costs, operating costs, and even marketing and education costs. Those programs that can cover these costs are close to or already at self-sufficiency. However, not all programs are able to generate sufficient revenues to cover all costs, necessitating ongoing donor support. Table 1 below provides a guideline used by DKT to ascertain how close to sustainability a particular DKT program might be based on its per capita gross national income (GNI) adjusted for purchasing power parity (PPP). The main takeaway from this is that where nonprofits are able to reduce dependencies on external funding, they are more likely to endure and ensure they stay focused on their mission. For DKT and other social marketing organizations that sell products that generate revenues, finding ways to bring in even modest amounts of sales revenue is beneficial. We encourage organizations to find ways to commoditize their offerings and believe this is beneficial. This could be services, trainings, or products. One of the most common complaints of nonprofits is the constant need to raise funds to cover operational costs. By moving toward models that incorporate sales revenue and social business, these concerns are at least partially, if not wholly, addressed.

It is worth noting that by charging even the most modest amounts for services, we increase the likelihood that these are truly wanted and needed by consumers and intended beneficiaries. Anybody will take something if it's free—even if they don't want or need it. When a small price is attached to that product or service, consumers will think twice before parting with their hard-earned money. This also increases efficiency and the likelihood of impact since there is less wastage.

We are not sure how widely these approaches are being applied in the global non-profit world, but we can state that more and more non-profits are looking for ways to ensure sustainability. It's easier when you have a commodity to sell or a service to market. But we've long argued that you can charge a modest fee for almost anything if done in the right way.

Broadly, there are three stages of financial sustainability—cost recovery, cross-subsidization, and genuine financial sustainability. These are described in greater detail below.

Cost Recovery

Although DKT's first programs were started either with its own discretionary resources or traditional donor funding, all programs have found creative ways of recovering the costs of contraceptive commodities, often the most significant cost in contraceptive social marketing.

The most common method of cost recovery is to carefully calibrate a price structure that maximizes revenues without sacrificing the ability of low-income consumers to purchase contraceptives. All DKT programs do this to a greater or lesser extent, even in low-income countries. Because DKT sells and does not give away products for free, all programs bring in some level of revenue that is used to offset the product's cost of goods. Recovering cost is an important first step in generating understanding of entrepreneurship.

When DKT started its first program in Ethiopia in 1990, its GNI per capita adjusted for PPP was \$420, according to the World Bank. This has more than quadrupled to \$1,890 in 2017, but DKT Ethiopia is still considered "less sustainable" and therefore dependent on donors to cover many of its costs including commodities. However, with one of the fastest growing economies in the world, DKT Ethiopia is well-positioned to become more sustainable in the years ahead.

Table 1. Realities and Possibilities of Sustainability for DKT 2020.

DKT Country	GNI per Capita, PPP ^a	Annual Consumer Cost/CYP (\$) ^b	Commodity Cost per CYP (\$) ^c	Commodity Cost Recoverable	Operating Cost Recoverable	Marketing Cost Recoverable	Start-up and/or Special Activities
Turkey	24,808	62.02	3.75	✓	✓	✓	Donor
Iran	19,012	47.53	3.75	✓	✓	✓	Donor
Mexico	16,929	42.32	3.75	✓	✓	✓	Donor
Venezuela	16,725	41.81	3.75	✓	✓	✓	Donor
Thailand	15,510	38.78	3.75	✓	✓	✓	Donor
China	15,270	38.17	3.75	✓	✓	✓	Donor
Brazil	13,852	34.63	3.75	✓	✓	✓	Donor
Indonesia	10,846	27.12	3.75	✓	✓	✓	Donor
Egypt, Arab Republic	10,351	25.88	3.75	✓	✓	✓	Donor
Philippines	9,156	22.89	3.75	✓	✓	✓	Donor
India	6,359	15.90	3.75	✓	✓	✓	Donor
Vietnam	5,857	14.64	3.75	✓	✓	Donor	Donor
Pakistan	5,311	13.28	3.75	✓	✓	Donor	Donor
Nigeria	5,203	13.01	3.75	✓	✓	Donor	Donor
Ghana	3,902	9.75	3.75	✓	✓	Donor	Donor
Myanmar	3,898	9.74	3.75	✓	Donor	Donor	Donor
Cote d'Ivoire	3,481	8.70	3.75	✓	Donor	Donor	Donor
Cameroon	3,319	8.30	3.75	✓	Donor	Donor	Donor
Senegal	3,055	7.64	3.75	✓	Donor	Donor	Donor
Kenya	2,962	7.40	3.75	✓	Donor	Donor	Donor
Tanzania	2,557	6.39	3.75	✓	Donor	Donor	Donor
Ethiopia	1,719	4.30	3.75	Donor	Donor	Donor	Donor
Uganda	1,658	4.15	3.75	Donor	Donor	Donor	Donor
Sierra Leone	1,348	3.37	3.75	Donor	Donor	Donor	Donor
Mozambique	1,100	2.75	3.75	Donor	Donor	Donor	Donor
Liberia	1,078	2.70	3.75	Donor	Donor	Donor	Donor
Congo, Democratic Republic	796	1.99	3.75	Donor	Donor	Donor	Donor

Note. Programs that are able to cover the cost of goods sold as well as operating and marketing costs are at or very close to self-sufficiency.

Ethiopia launched its first product, *Hiwot* condoms, in 1990, with a second condom brand, *Hiwot Trust*, introduced shortly thereafter. *Trust* was dotted and marketed for dual protection (against pregnancy and HIV) with a slightly higher price. However, both of these brands were heavily subsidized and eventually the original *Hiwot* was discontinued. In 1999, DKT launched *Sensation* condoms, which was sold at double the price of *Hiwot Trust*. *Sensation* condoms continue to be subsidized, but the three premium *Sensation Extra* variants, launched in August 2018 for more aspirational consumers, make a small profit. *Sensation* condoms have continued to perform well, with 24.6 million units sold in 2019.

In 2006, DKT experimented with profit generation by taking over distribution of *French Feelings* (with strawberry, chocolate, and banana variants), a commercial brand owned by a condom manufacturer. Due to objections from the Ethiopian regulatory body, DKT was obliged to drop this product in 2013, but the experience provided useful context and understanding for the Ethiopia team regarding entrepreneurship. As a result, DKT launched its own higher-priced condom product called *Members Only*. This brand was not subsidized and generated a modest profit for DKT for several years; it was discontinued in 2015 as sales fell flat.

By 2019, DKT had three categories of male condoms with different pricing strategies to reach different market segments. These included:

- *Hiwot Trust*: Mass marketed, highly subsidized, and intended for lower income consumers. Sales accounted for 57% of condom sales in 2019.
- *Sensation*: Mass marketed, less subsidized, and intended for middle-income audiences. Sales accounted for 36% of sales.
- *Sensation Xtra* (Delay, Coffee, and Cinnamon): Premium, unsubsidized, and aimed at the more affluent audiences. Sales accounted for 7% of sales.

DKT has seen, and indeed promoted, a shift in sales from *Hiwot Trust* (highly subsidized) to *Sensation* (less subsidized). As per capita incomes rise, DKT expects a further shift from *Sensation* to *Sensation Xtra* (unsubsidized). In addition to condoms, several other products—including emergency contraception, medical abortion, and oral rehydration salts—are unsubsidized and return a modest profit margin.

This is a favorable trend and should continue, provided Ethiopia's economy continues its current growth trajectory. Indeed, in Ethiopia, a greater share of product sales is generated from less subsidized brands, demonstrating that steps toward financial sustainability are possible in lower-income countries where social marketing programs are generally more dependent on donors.

In 2018, DKT Ethiopia covered 40% of its costs with sales revenues. As per capita incomes rise, DKT plans to further decrease product subsidies and transition to a self-sustaining entity. This is likely to take many years and is heavily dependent on socioeconomic and political factors beyond the control of DKT. In the meantime, DKT will require critical donor support to cover the balance of program costs.

Cross-Subsidization

Once cost recovery has begun in earnest, many DKT programs introduce differently priced brands within the same product category (such as condoms or IUDs) to maximize both health impact and cost recovery—a concept called “cross-subsidization.” For DKT, this strategy has been a critical component of moving toward financial sustainability and social entrepreneurship.

The principle of cross-subsidization is straightforward: Revenues earned from products sold at a higher price point are used to offset subsidies on other products or for other parts of program operations. As in Ethiopia, DKT might offer a subsidized condom brand affordable to low-income

consumers, a mid-priced condom that breaks even and a premium brand that generates profit. DKT also employs cross-subsidization with pills, injectables, IUDs, and other products.

DKT Brazil's cross-subsidization strategy includes offering a range of *Prudence* brand condoms at different price points. The "classic" condom offers a standard level of comfort and protection at an affordable price, while other condom variants provide unique benefits and cost a bit more. Such product and price segmentation include condoms with colors, aromas, and tastes (including strawberry, tutti-frutti, watermelon, and caipirinha); condoms lubricated with mild anesthetic to delay ejaculation; extra-large and anatomically shaped condoms; condoms lubricated to create a cool or warm sensation; and glow-in-the-dark condoms.

DKT uses a well-established affordability guideline to ensure that every program offers contraception that will be within the financial reach of a majority of the population. This guideline suggests that a year's supply of contraception should not cost more than 0.25% of GNI per capita adjusted for PPP. Based on Brazil's 2018 affordability guideline calculation, a single condom should cost no more than \$0.37. As a result, all of the *Prudence Classico* condom variants cost below \$0.30, while the premium variants cost more.

DKT Ghana is another example of a program that uses cross-subsidization. There, sales revenues cover all commodity and operating costs but not all of the associated education and marketing costs, particularly for long-term methods like IUDs and implants, which require significant provider training. Such costs are supported by donors.

Ghana has been able to achieve partial sustainability for several reasons including, most importantly, its improved purchasing power. With a GNI per capita PPP of \$3,902 (2019), Ghana is now considered a middle-income country; it is also the first country in sub-Saharan Africa to achieve Millennium Development Goal 1 by halving the number of people in extreme poverty, according to the UN Development Program (<http://www.gh.undp.org/content/ghana/en/home/countryinfo.html>).

DKT Ghana's market development efforts have contributed significantly to financial sustainability. Established in 2011, DKT Ghana has worked aggressively to introduce new products, grow the marketplace, and cross-subsidize within and across product categories.

For example, DKT Ghana has two condom brands that produce health impact and generate revenue. *Kiss* is a low-priced condom for the general population and meets the need for a high quality, affordable condom. *Fiesta* condoms are slightly higher priced and target youth and young professionals. Neither brand is subsidized and together brought in \$837,203 in sales revenue and \$280,828 in gross profit in 2018. This helps to offset the loss that DKT incurs in the sale of abortion-related products which, in 2018, were subsidized by more than \$160,000.

Although DKT generates important gross profit from the sale of these products, this is insufficient to cover 100% of programmatic costs, including, for example, the important training of midwives and nurses to insert IUDs and implants and the broad education of young people around reproductive health. Indeed, in 2018, DKT Ghana covered 61% of its costs with sales revenues with the balance covered by donor funds. Health impact was significant: DKT estimates that more than 50% of all contraceptive prevalence in Ghana as a whole in 2019 was delivered through DKT.

Genuine Financial Sustainability

Once a program achieves cost recovery and cross-subsidization, it may eventually be in a position to reach genuine financial sustainability, such that profits are able to cover, if needed, 100% of commodity, operational, and program costs.

DKT Indonesia is DKT's leading program in terms of health impact (in 2019, it produced almost 9.5 million CYPs) and has been the largest contraceptive social marketing program in the world since 2014. In addition, it is financially sustainable, covering its core program expenses with sales revenue (some special programs have been funded by donors).

DKT Indonesia was established in 1996 with the launch of subsidized *Sutra* condoms—now the best-selling condom brand in the country. In 2000, DKT Indonesia introduced a range of *Andalan*-branded contraceptives (also originally subsidized), eventually supported by a network of midwife clinics. In 2002, DKT Indonesia launched *fiesta* condoms, which were higher priced and targeted young people; *fiesta* condoms were originally part of a cross-subsidization strategy, generating revenue to offset the subsidies of the lower-priced brands. Over time, DKT Indonesia introduced additional contraceptives (oral and injectable contraceptives, IUDs), segmenting the market with products that offered different benefits at a range of prices. As per capita incomes increased, DKT took measured price increases, thereby reducing and ultimately eliminating product subsidies.

As such, DKT Indonesia's need to subsidize products was slowly reduced over the years to the point that, from 2002 onward, no product costs were subsidized. By 2010, DKT Indonesia was able to cover the core costs of operations but still relied on donor support for the costly and challenging work of behavior change campaigns, training of health providers, and reaching underserved populations. Rigorous financial reporting and accounting is used to segregate and differentiate costs associated with donor funds and sales revenues.

The result has been that rising incomes, growth of sales volumes, and a disciplined, entrepreneurial approach have led to DKT Indonesia becoming both financially sustainable and profitable. Some of these profits has been redeployed to support DKT programs in other countries. In 2011, for example, DKT Indonesia provided \$1 million to launch the program in Ghana described above.

In Indonesia, financial sustainability has been accompanied by significant health impact. In 2019, DKT sold and marketed almost 30 reproductive health products throughout Indonesia, including more than 132 million condoms, 27 million oral contraceptives, 24 million injectable contraceptives, and 287,000 IUDs. DKT estimates that the 9.5 million CYPs delivered by DKT Indonesia in 2019 contributed to more than 40% of all modern method users in the country.

Conclusion

Through a mixture of effective marketing, rising incomes, and lower contraceptive procurement costs, DKT programs have been able to transition from being fully donor dependent 31 years ago to increasingly financially sustainable to the point where 70% of operating costs are now covered by revenue. Of course, the level of financial sustainability varies greatly from country. The use of innovative financing to transition from a highly subsidized model to a more entrepreneurial model is easier in countries that have experienced faster economic growth. But all programs—at all points on the sustainability spectrum—are headed in a more entrepreneurial direction. We expect this trend to continue over the next 30 years, especially in those countries that make progress in reducing poverty and growing their economies.

The lessons learned over the last 30 years provide useful food for thought for the growing work of social enterprises and NGOs that remain concerned about how to ensure that they can financially sustain their work and impact. DKT has learned that this shift takes time and concerted effort. Factors impacting on success include ensuring the correct blend of staff with private sector skills and approaches that can be applied to social issues as well as a corporate culture that allows strategies and tactics that move beyond traditional donor fundraising. The shift to social entrepreneurship facilitates greater self-reliance and reduced dependency on outside funding streams to ensure long-term organizational and operational viability. It further re-directs programmatic efforts squarely toward the “customers” and “clients” since they become the primary revenue stream. As donor funds are inevitably re-prioritized and re-directed over time, the ability of charities to fund themselves should hold great appeal to non-profit leaders and managers alike.

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Note

1. A couple year of protection (CYP) is the amount of contraception necessary to protect a couple for one year. Cost per CYP is the total amount of external funding that is required to generate those CYPs; program sales revenues are not included in this calculation.

Author Biography

Christopher Purdy is president and CEO of DKT International. From 1996 to 2011, he served as country director of DKT programs in Turkey, Ethiopia, and Indonesia where he managed the largest private social marketing family planning program in the world. He served as executive vice president from 2011 to 2013. He also serves as the CEO of carafem, a network of reproductive health centers serving populations in the United States. He is the author of numerous articles on family planning and social entrepreneurship.