



Case Study: LIVING GOODS

*How One Nonprofit Doubled Down on Its Mission
and Unlocked New Sources of Aligned Capital*

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When Brad Presner joined the nonprofit Living Goods in 2013, the organization was in the midst of what he calls an “organizational transformation.” Living Goods was founded in 2007 by Chuck Slaughter, an entrepreneur who made his fortune launching TravelSmith, a direct mail catalog dedicated to the needs of serious travelers. Leveraging Chuck’s retail experience, Living Goods developed a successful model where they recruited health workers in Uganda and Kenya to serve as a network of micro-entrepreneurs. In the early days, these health workers traveled door-to-door in their communities to teach families how to improve their health, conduct health assessments and provide simple treatments for things like malaria, pneumonia and diarrhea.

They also sold life-changing products such as safe delivery kits, feminine protection products, fortified foods, clean cook stoves, water filters and solar lights.

In 2007, Living Goods bought the products at wholesale rates or developed their own lines, and then resold them to the health workers, making a small profit margin. The health workers in turn generated a small income stream by selling the products to the families they visited while offering communities a cheaper and more convenient way to access goods to improve household health. Using this model, Living Goods was aspiring to combine best practices from business and public health to dramatically lower child mortality.



Image credit: Living Goods

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How exactly does the Living Goods business model work?

- Living Goods recruits new and existing government health workers in Uganda and Kenya and equips them with both basic healthcare training and a health “toolkit-in-a-bag” so that they can provide check-ups, health education and some basic medications to the families they visit. Community Health Workers receive monthly refresher trainings and are supported by comprehensive supervision and performance management systems.
- Living Goods also develops high quality medications and a product mix that health workers can sell. This includes things like simple treatments for common diseases; nutrition products; family planning and healthy pregnancy products; and money-saving household goods. Living Goods purchases these products in bulk at wholesale prices or develops their own product lines. They then sell these products to the health workers and make a small margin.
- The health workers in turn are typically able to sell their products to local communities at competitive retail prices or slightly less and make a small profit margin. Their income comes from the sale of medications and products plus incentive payments they received from Living Goods if they meet established targets for health services. Living Goods does not pay the health workers a direct salary.



The Living Goods “Toolkit-in-a-Bag”
Image credit: Living Goods

- Living Goods has an earned income stream AND is significantly subsidized by philanthropic contributions from foundations, individuals, and increasingly bilateral and government sources.
- Today, the model is more focused on achieving health impacts than ensuring financial sustainability through product sales, and great attention is paid to base training, monthly refreshers, and ongoing performance management of CHWs."

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When Brad entered Living Goods in 2013, the organization was achieving promising results. On the financial side, the incomes of health workers were on the rise and they were selling a diversified mix of products. Living Goods was moving towards production of their own HealthyStart porridge line. Simultaneously, many of the children the health workers treated seemed to be doing well. However, Living Goods was awaiting the results of a randomized control trial that they had initiated in 2011 to prove that they were truly making a difference.

Collectively, the organization was grappling with how much to emphasize the development of their earned income stream vs. trying to maximize the health benefits for the communities they served. Should they focus on generating margin and sales or should they try to increase their social impact? Were these two goals even at odds?

“When I joined, there were two different flavors of Living Goods happening,” Brad remembers, “One was focused on the health side of things. This approach emphasized identifying, assessing, and treating sick kids and supporting pregnant mothers and their newborn children. The other side was really focused on driving sales. We even experimented with having a couple of our branches focus on selling non-medical products such as cookstoves and water filters and fuel-efficient stoves, rather than training them to do

sick child assessments and treatment. They were still focused on household wellness, but they weren’t as focused directly on treating sick kids. We were really playing around with that model to see what kind of gross sales and unit economics would make the whole thing work.”

Then, the results of the randomized control trial finally came back. And they gave the organization fresh perspective.

How does selling porridge contribute to positive health outcomes?

Living Goods found they had to equip health workers with a mix of consumable goods that families would want to purchase on an ongoing basis along with medications to treat specific one-time health issues.

“The health worker needs the ability to sell other products when kids aren’t sick. So that’s a reason why we have the things like our porridge products, because people will need them every week so health workers have a reason to keep going back and visiting families in addition to conducting their usual follow-up visits and offering pre and post-natal care. Selling the porridge gives them a reason to be out in the community more regularly.”

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The Opportunities and Trade-Offs of Doubling Down on Social Impact

In 2011, J-PAL, Yale, MIT, and Innovation for Poverty Action had initiated a randomized control trial to study the community-level outcomes of Living Goods. They wanted to see if communities where Living Goods health workers operated had a decreased number of deaths among children 5 and under. Brad remembers that back in 2013, “It was unclear what the results would be...so that was part of the impetus behind us wanting to test additional models.”

However, the organization shouldn’t have worried. The results showed that in communities where Living Goods was operating, there was a 27% reduction in child mortality for kids under the age of 5.

“That snapped us back into focus,” Brad said. “Those results made us realize that achieving positive health outcomes is what we do well. We provide healthcare to communities that need it and if we were going to try to push towards financial sustainability, we had to make sure it didn’t distract Community Health Workers from being able to be out in the communities looking for and treating sick kids.”

“Obviously it’s not black and white, and it’s not earned income vs. impact, but, for us, we realized that if we exclusively prioritized sales, we would naturally start to shift upmarket and take the

health workers out of the poorer communities that really needed the health services and put them in slightly more affluent places where people could afford more consumer goods. To build a business model that reaches sustainability, you’d have to achieve much higher gross sales, at much higher margins, which would probably mean targeting people who had a lot more money. That wasn’t what we decided to do.”

Instead, they decided to maintain their current earned income stream, but continue to complement their model with philanthropic and government funding. They thought this would enable them to achieve positive health outcomes amongst communities that needed their services most.

This repositioning was not without risks. They risked alienating supporters who wanted Living Goods to use a more market-driven approach. They also currently had stable philanthropic funding, but would need to prove they could keep raising money from governments and foundations over the long haul.

And with the renewed focus on health outcomes, Living Goods opted to pare down some of its product offerings with less clear health benefits (such as fast-moving commodities like soap in some locations). So they even risked potentially frustrating some of the local health workers who were making a

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solid income stream selling a diversified basket of products.

“We used to have health workers sell soap, for example. You could make an argument that soap is health-related,” Brad explains, “But there is not really a unique value proposition to selling soap. You can get soap anywhere.”

Instead, Living Goods decided to start paying the health workers incentives for targeted health activities. Today, about three quarters of the income that health workers take home comes from the margin on the sales of products, and the remaining quarter comes from

incentive payments for doing activities like registering and supporting a new pregnancy or conducting an on-time newborn visit. But, they also found that income was far from the only motivator for community health workers – many did it for the prestige it gave them in their communities, and their genuine desire to make an impact.

“The results of the RCT really focused us,” Brad says, “For the last couple of years, we have deemphasized looking at the margins and gross sales per health worker per month and reemphasized metrics such as how many sick kids each health worker



Image credit: Living Goods

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finds and assesses or treats, how many new pregnancies they register, how quickly they serve families and, how timely they are in providing follow-up care to sick children. Those are our key metrics. That's what we focus on now rather than the sales or the margin. So it's shifted the narrative from 3-4 years ago."

Trading One Source of Income for Another

It seemed that by reprioritizing positive health outcomes, Living Goods was making a laudable—but risky—move that could potentially jeopardize their long-term financial viability. Perhaps surprisingly, the opposite turned out to be true. By refocusing on their mission, Living Goods has opened up new funding possibilities.

"We're now seeing that our biggest opportunity is really around scaling what works. We need to make sure that what works when you have 500 health workers is going to work when you have 10,000 health workers," Brad says. "We're on our way to doing that. And so now suddenly the replicability of our model has opened up new funding opportunities. We're having discussions with the government and the Ministry of Health that we couldn't have when we were at a few hundred health workers. We can now say very concretely say 'Here's our plan in Uganda. We currently have 2,500 health workers. We want to get to 10,000. Here's how we'll do it.'"

"There is interest in seeing if Living Goods could run some of these national community health systems. Working closely with local governments, we could get to a point where a large part of their health budgets focus on community health workers and could go to creating models locally with Living Goods providing technical assistance. If we could come up with a way to train and equip these health workers impactfully and cost-effectively, it could create value that governments would be willing to pay for."

Building a Replicable Model to Serve Communities at Scale

So how has Living Goods gotten to this point? What has enabled them to scale to the extent that governments are now talking to them about running nationwide programs?

Early on, Living Goods figured out that it was really important to find health workers with the right motivation. "The most successful health workers want to contribute and make a difference in their communities," Brad explains.

"If somebody is only interested in making a lot of money, it's probably not going to be a good fit. Instead, we're looking for the type of people who are going to be motivated by having their neighbors call them when their kids are sick because they've become established as figures of trust. We want people who will be motivated to rise to those positions of trust."

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Developing a process to find the right health workers is not only key to delivering the best health services—but it’s also critical to help Living Goods keep their costs low.

“There is quite a heavy investment of time and energy before a health worker is ready to go out into the field,” Brad explains, “We have to make sure we find the right people in all of these places so that we end up with comprehensive but not overlapping coverage. I wouldn’t say we’re at the point of having a model that is totally out-of-the-box, but it’s a pretty replicable model. We have people go out to communities to do the early mapping. They talk to the community leaders. They find the right kind of people—many of them existing government community health volunteers—and then they equip and train them, with monthly refresher trainings. It’s a replicable model, but it’s taken years to get that right. As a result, our attrition is really low. Only 10% of health workers are turning over every year, which is important for the model.”

Building this replicable model to recruit, identify, train and equip the health workers has helped Living Goods achieve efficiencies of scale. They now estimate that it costs just \$2 per person served to achieve those positive health outcomes.

“The RCT results really showed us that if we could achieve this reduction in early childhood mortality for only \$2 per person served per year, then we could offer tremendous value to the local governments, bilateral funders, aid agencies. They could become our end customers too. At scale, we believe that we can get costs closer to \$.50/\$1 per person per year.”

Lessons for Other Nonprofits Looking to Develop Earned Income Stream

So, what has Brad learned about building a nonprofit model that both achieves significant impact and is highly cost-efficient? He thinks that every nonprofit should start with a critical question: What is the crux of the impact you’re trying to create?

“If Living Goods was trying to create a wholly sustainable model, we would be on a very different path than we are today. We would have an earned income stream that covers all our costs and would not have to go to aid agencies and other funders to support our work, but we don’t think we’d be achieving the same level of health from an impact perspective.”

“I think that you need to get very clear about whether your earned income stream is in support of your impact or where it might start to detract from it. And be very honest with yourself. It took Living Goods a couple of years to really say, ‘Let’s kill this test that is taking us away from our core impact.’”

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“We had two branches that were only offering products and not providing health services. If you looked at them from an economic perspective, you would have seen the margins were great. The income of the health workers was going up. But what were they selling? Half of their sales were from soap. And we had to ask—is soap really driving impact? Not so much.”

“If our impact goal had been to help entrepreneurs achieve their own incomes so they could send their kids to school, that model might have worked. But the crux of our impact was health treatment. Treating kids and selling them medications might only be a third of our sales, but it’s 95% of our impact. We had to rigorously evaluate anything that wasn’t central to creating impact.”

This wasn’t necessarily easy. “It was hard for us to say—let’s cut out this profit-motivated model because ultimately it’s not working. But we made the hard decision that everything needed to be in support of our vision of ensuring all mothers and children have access to health at their doorsteps. When we were getting distracted from our mission, we were at risk of losing what made us uniquely impactful.”

Questions to Consider

- In your own words, try to describe how the model of Living Goods has evolved over time. What factors played a role in this evolution?
- What factors have made the Living Goods model successful?
- What factors might other organizations be able to replicate? What would be very hard to replicate?
- What were the potential trade-offs that Living Goods had to navigate when deciding to pursue either a profit-driven or impact-driven model? What would it mean for your organization to make similar trade-offs in pursuit of your social impact goals?

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What did Living Goods learn about developing their own product line?

Living Goods invested a lot of time and energy in developing their own HealthyStart line of fortified foods which included these porridges. “The impetus was trying to create a better product than the existing ones on the market and drive higher sales and higher margin products,” Brad explains, “All the products that Living Goods originally sold weren’t ours. We were selling solar lanterns and fuel-efficient stoves. With third party goods, you’re limited to how much you can shift your profit margins. The first product we tried to develop on our own was our HealthyStart line of foods. We still manufacture and sell them. It’s one of the biggest sellers and it’s a quarter to a third of our total gross sales.”

“We found that this product line performs very well from both a financial and impact perspective. It fits very well with our target of under 5 children. It has a recurring nature to it—it’s not like a water filter where you sell one and you’re done because people constantly need to feed their kids. And it tastes really good! So it fit in with everything that we were doing and it’s been really successful.”

If other nonprofits are looking to develop their own product lines, Brad warns that, “it can take a long time to get it right. Of course, we were specifically manufacturing a food product so we had to go through all the approval processes with local equivalent of FDA. We also had to experiment with mixing in different ingredients to the food to make it appealing to kids. We wanted to optimize it to make it both a delicious and health-fortified food. Some companies do that as their sole business. If product development is not your expertise, trying to do that when you haven’t done it before takes a lot more effort.”

“It can be worth it. But you have to model it out long-term because product development really is such a high upfront investment, but if you start to get critical levels of sales, it is a way of really changing your unit economics. HealthyStart products are still some of our highest margin products—we achieve 30-40% margins.”

Although their HealthyStart products have been successful, Living Goods is no longer investing bringing other new products to market. “As we focus on the health conditions that cause mortality, developing our own line of products hasn’t made as much sense. I think if we were still really focused on financial sustainability then we would have continued to invest. But at this point, we’re just continuing to manufacture and sell what we already have developed.”

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Credits:

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This case study was written by Amy Ahearn, May 2018.