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Reinventing the condom - for women

After two decades of patiently laying groundwork, Female Health is finally poised to profit from its life-saving but hard-to-sell creation.

By [Elaine Appleton Grant](#)

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(Fortune Small Business) -- Talk about patient money. It took The Female Health Company, a Chicago-based maker of female condoms, almost 20 years to turn a profit.



O.B. Parrish, the company's 75-year old CEO, is nothing if not persistent. He retired from his position as head of G.D. Searle's global pharmaceutical business in 1985, when Searle's then-president, Donald Rumsfeld, helped engineer the company's sale to Monsanto ([MON](#), [Fortune 500](#)). With two other big pharma veterans, Mary Ann Leeper and William Gargiulo, Parrish began looking for health care companies to invest in.

He found a tiny Wisconsin firm that had licensed the right to make a female condom, using designs created by a Danish physician. Parrish felt the device -- not yet off the drawing board -- could be marketed as a contraceptive, and later, as prevention against HIV/AIDS. They bought a portion of the company and started developing the first-generation female condom, the FC1. (Eventually they would buy the entire business and change its name.)

But the very notion of a female condom had a rough road ahead. To sell one would mean building a global market for it.

Bidia Deperthes is an HIV/AIDS technical advisor for the U.N Population Fund who has worked with 56 countries on their condom policies. The hurdles were -- and to some extent, still are -- huge. As she puts it: "It is a woman issue, and our policy makers all over the world are mainly men."

Moreover, manufacturing an effective female condom at a reasonable price was an uphill battle. Investor Stephen Dearholt, who owns about 17% of the company, says it took years to develop equipment that could manufacture high-quality devices quickly. In early days, he says, "We were

making them by hand." In the first versions, welds in the thin polyurethane could hurt the woman. Clearly, that flaw was unacceptable.

But as the understated Parrish says, "We aren't easily dissuaded."

Profits weren't the only motive. "One of the reasons we stuck with it and believe in it is, this product saves lives," he says.

Gaining acceptance

And so they kept at it. The team recruited Mike Pope, a British engineer, who developed a mass-production method, and the FDA approved the FC1 in 1993. Slowly, the company started selling to nongovernmental organizations (NGOs), which distributed the condoms to women in developing countries.

But the first-generation condom had many problems, including slipperiness and noise during sex. In 2007, the *New York Times* quoted former Female Health (FHCO) staffer Mitchell Warren as saying it had a significant "yuck factor." The price was extraordinarily high -- at one point, up to \$1.20 a piece, in contrast to male condoms, which sell for pennies.

And there are more daunting problems. Without programs to teach women how to use them and to negotiate for their use with unwilling male partners, women don't adopt female condoms, says Bidia Deperthe. In African countries, when a woman suggests condom use -- either version, for the female or the male -- her husband often assumes she's being promiscuous. "For us to be successful, you have to put the money into programming," Deperthe says.

But Parrish and his partners kept steadily chipping away at the obstacles under their control, starting with the product's quality and price. Casting about for a cheaper material, they settled on a soft synthetic latex and developed a new manufacturing process that could spit out millions of the devices every year. That breakthrough led to condoms that cost about two-thirds of the original price and give Female Health a substantially higher margin.

In 2006, the World Health Organization approved FC2, allowing U.N. agencies to buy it in bulk for distribution overseas. That year, Female Health finally turned its first profit.

But without FDA approval, Female Health couldn't sell FC2 to U.S. groups like the U.S. Agency for International Development (USAID), one of the largest global organizations working to prevent HIV/AIDS. (In the meantime, USAID was distributing small quantities of the FC1.)

This March, the FDA approved the FC2. The UNFPA's Deperthe is overjoyed. With all public health organizations -- especially USAID -- now able to buy the same condom, volume will rise, meaning prices could drop as low as 30 cents each. Deperthe hopes that public donors will be able to distribute 50 million female condoms this year.

Political forces, too, are going their way. In 2008, President Bush authorized \$48 billion in AIDS prevention and treatment funding assistance over five years. And U.S. public health programs have discovered the female condom -- most notably, the New York City health department, which distributed 2 million female condoms last year.

All of this added up to a great 2008 for Female Health. It distributed 34.7 million units, up 34% from 2007, in 93 countries. Revenues jumped 33% to \$25.6 million, while net income grew 215% to \$4.8 million.

This year looks good as well. With the only FDA-approved condoms on the market, the company has

no significant competition -- yet. Notably, a Seattle nonprofit called PATH, backed by the Bill Gates Foundation, has developed a new product, but has not yet run it through the expensive clinical trials needed for FDA approval.

This year, Female Health will plow a few million dollars into expanding its manufacturing plant in Malaysia. Still, the company expects to have such significant cash flow that it's a "cash cow," says hedge fund manager David Sandberg of Red Oak Partners, one of Female Health's investors.

Despite its newfound success, Female Health has only made tiny inroads into the market. In 2007, more than 11 billion male condoms were delivered around the world, in contrast to 27 million female ones.

"This is an imbalance that has to change, because the population is one man, one woman. And women are disproportionately affected by HIV," says Deperthes. To her, that imbalance is an outrage. To Parrish, it is that as well -- and an incredible market opportunity.

"We have almost unlimited need for the prevention of AIDS," he says. And so Parrish and his colleagues will keep on moving forward, one persistent step at a time. ■

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