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Herbalife: \$3 Billion in Retail Sales and Growing by Barabara Seale

Few network marketing companies could claim to be better known than Herbalife. And that's how company CEO Michael O. Johnson likes it. Since Johnson took the helm in April 2003, he has methodically strengthened every aspect of the business – building its brand, intensifying its focus on science-based products and recruiting a management team that daily falls in love with its distributors all over again.

One of the world's largest network marketing companies, Herbalife sells weight-management, nutritional-supplement and personal-care products in more than 60 markets through a network of more than 1.5 million independent distributors.

Product Prowess

Herbalife's products fall into three lines: Weight Management, Targeted Nutrition and Outer Nutrition®. Best known for its weight-management products, Herbalife offers meal-replacement shakes, protein bars and low-calorie snacks along with products that enhance satiety and support digestion. The Targeted Nutrition line includes heart-health products endorsed by Nobel laureate in medicine Dr. Lou Ignarro, a member of Herbalife's Nutrition Advisory Board and Scientific Advisory Board. The same line also includes products that target digestive support, stress relief and immune system enhancement. It offers formulas focused on the needs of men, women and children, as well as nutritional supplements that support the health and function of joints, muscles and eyes of an aging population. Herbalife personal-care products fall into its Outer Nutrition product line, which includes botanical-based formulas for lips, skin and hair, plus two fragrances each for men and women.

Since February 2005, the man behind Herbalife's products has been Chief Scientific Officer Steve Henig, Ph.D., whose career includes executive positions at Ocean Spray Cranberries, ConAgra Grocery Products, Hunt-Wesson and other food companies.

"Having spent a number of years with major companies, I focused my attention more on functional, nutritional foods," Henig says. "I loved the idea of Herbalife. When I met Michael Johnson and a few other executives, it was clear to me that this was a wonderful opportunity to leverage my expertise with their needs. Their mission for nutrition hit a home run with me."

Triumph after Tragedy

Herbalife Founder Mark Hughes packed a lot into a short lifetime. His success seemed to be triggered by a tragedy. His mother died at age 36, reportedly from unsafe dieting. Hughes was just a teenager. But by the time he was 24, he had traveled to China in search of a safe and effective weight-loss program, returned to the United States to bring

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together a team of medical and nutritional experts and through them created the first Herbalife products. In 1980 he started selling the products out of the trunk of his car.

As people tried the products and achieved weight-loss success through them, Mark's business quickly expanded. He rented office space and developed a network of distributors who were inspired by his vision and excited by the business opportunity. Within two years, Herbalife expanded into Canada and sales were topping the \$2 million mark. By the time the company was 10 years old, it had markets around the globe.

Then came 2000. Herbalife celebrated its 20th anniversary, its salesforce of independent distributors reached the 1 million mark and it was marketing more than 100 Inner and Outer Nutrition® products in 50 countries. And Mark Hughes died unexpectedly at 44.

After Hughes' death, Herbalife faced financial struggles but has since turned around. The road to the \$3 billion mark was paved with months of record sales and in 2006 the company achieved 12 consecutive quarters of year-over-year, double-digit sales growth. And though the stock price chart shows some bumps, its overall direction has been decidedly upward. At the time Direct Selling News went to press, HLF stock was selling at more than double its IPO price.

Johnson believes new product introductions and motivated distributors will continue to build a bright future at Herbalife. "A lot of distributors are passionate about Herbalife because the products changed their lives, and the business opportunity has a lot of ability to enhance people's financial freedom and independence, whether a distributor does it full or part time. Ralph Waldo Emerson said it best," Johnson says. "The first wealth is health."

Science Plus Marketing

Henig's other clincher was Herbalife's commitment to scientific research, underscored by its opening additional research and quality-control labs, and the company's investment in the UCLA lab named for Herbalife's founder. All reduce Herbalife's reliance on vendors to help it develop both nutritional and skin care products.

"I needed that commitment," Henig says. "I needed to know that products are science based, thoroughly tested and have clinical trials behind them. I had to have the resources supporting that. Our industry is highly diverse. We lead the way with good science and a good team."

Henig says Herbalife has consolidated and strengthened its product strategy with a solid five-year plan.

"We've launched good products and improved our messaging," he says. "To ensure the efficacy of our products, we've commissioned clinical studies. One of the accomplishments we've made over the last year or so is the introduction of a new product-development process."

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The process integrates observation, focus groups, competitive activity, market trends and feedback from the company's distributors. "Like a big funnel, they all come in and we screen them," Henig says. "We use market insight tools, surveys, questionnaires and our own assessment of what would connect with our distributors. We believe in combining inner and outer nutrition, and any product concept we choose must fit into one of our product lines."

Supporting Children

In his short life, Mark Hughes not only started a company that, by the time of his death was worth more than \$1 billion, he also established the company's charitable foundation that serves children around the world.

Hughes created the Herbalife Family Foundation (HFF) in 1994 to help children in need to overcome life's most basic challenges—from escaping poverty, hunger and abuse to receiving adequate medical care and education. In 2005, through partnerships with existing charities serving children, the foundation introduced Casa Herbalife, a program to ensure that children in need are fed healthy and nutritious meals. To date, 21 programs are in place on five continents.

In response to natural disasters around the world, HFF established special funds from donations made by Herbalife Independent Distributors, employees and friends to support Save the Children, SOS Children's Villages and the American Red Cross. From these funds, the Herbalife Family Foundation distributed almost \$900,000 for victims of the tsunamis, earthquakes and hurricanes that struck in 2004 and 2005.

Many Milestones

The success of Herbalife distributors in selling those products has achieved two company milestones, CEO Michael Johnson points out. "In 2006 we hit \$3 billion in retail sales. That's a huge milestone," he says. "[Company Founder] Mark Hughes spoke often of hitting that milestone, and we reached it this year. I'm so proud of what our distributors have achieved." He adds that as a result of the record-breaking year, Herbalife will distribute \$30 million in Mark Hughes Bonus Awards, which recognize the most successful Herbalife independent distributors who have demonstrated superior leadership and motivation of their global organizations. The bonus pool amount eligible for distribution is 1 percent of retail sales.

Reflecting on his four years with Herbalife, Johnson lists some of the high points. "We've had continuous product improvement with cutting-edge products, such as Niteworks, the brainchild of Lou Ignarro. Bringing him on our Scientific Advisory Board was a real coup. And the Mark Hughes Laboratory at UCLA signifies a giant step forward in product integrity making sure we're working closely with the nutrition and scientific community. Our 25th anniversary extravaganza was another milestone. We now have a thousand President's Team members, and we also now have two Founder's Circle members—the highest level our distributors can achieve."

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With so many recent accomplishments, Johnson takes January's stock price fluctuation in stride. HLF dropped 23.4 percent on Jan. 5, 2007, after the company warned it had lower than expected sales growth in Mexico during the fourth quarter of 2006 and that it expects 2007 sales in Mexico—its largest market—to be flat.

“As a public company, we had a duty to guide investors properly about what the year looked like for us,” Johnson says. “But we also wanted to announce that we had eclipsed \$3 billion in retail sales—give a signal that this company was doing extremely well. We were shocked by the overreaction of the street, but we're not concerned at all. Stocks go up and down, and I think we'll be back. This is a marathon, not a sprint.”

Analysts seem to agree. Douglas M. Lane of Avondale Partners L.L.C. ranks HLF as “market outperform,” noting, “We think we can make a compelling investment case for HLF at current prices using our new, more conservative forecasts, and believe the sell-off . . . over the near-term retrenchment in Mexico provides an excellent entry point into the stock from what we believe are extremely oversold conditions.”

Johnson puts the case more plainly: “We believe we have a tremendous growth story in Mexico. Its growth has tripled in three years. We're plateauing in Mexico, but I still believe there's plenty of growth. We have infrastructure issues and business issues. We grew so fast that the infrastructure couldn't keep up. We're now working to come up with opportunities to enhance the business in Mexico. It will take a little time to get it in place, but I expect Mexico to remain a vibrant, strong, opportunistic market.”

Confident Distributors

Johnson says Herbalife's distributors also take stock fluctuations with a grain of salt. “Our senior leadership has been around a while. They've experienced us as a private company and a public one. We took Herbalife public in December 2004 at \$14 a share. It went up 130 percent in two years, so distributors take fluctuations in stride. They know their checks are up and, therefore, the value of the company is up. We had a conference call to celebrate the \$3 billion news. The stock price was a discussion point in the call, but we talked about this being an opportunity. Our distributors are highly entrepreneurial people. They're confident about Herbalife.”

Distributors are Herbalife's heart and soul and even helped the company when it faced its greatest crisis, the death of founder Mark Hughes. After Hughes died in 2000, company distributors and employees were predictably shocked. Recovering from the unexpected loss of an active founding force in the company is no small feat. Herbalife went through what Johnson calls “a financial lull” for two years. But once again, it bounced back.

“The company was sold to two powerful Wall Street investment groups, and they emphasized that we were going to be a growth company again,” Johnson says. “They invested in products and in people, and they built a strong board of advisors. They believed we could be a company twice as large as it was then, and they believed we could do it in five years. We got there in three. And they invested in a management team that is in love with our distributors—distributors help us realize what we know and what we don't know. They fill in the blanks for us. They're powerful partners in the running of this company and a huge part of the success and energy of Herbalife. When we earn their trust, we unlock this magical opportunity.”

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Keeping Current

Earning its distributors' trust is high on Herbalife's priority list. One of the ways it does so is by providing lots of information and education, often through presentations by members of Herbalife's Nutrition Advisory Board. Led by Board Chairman Dr. David Heber, head of the Center for Human Nutrition at UCLA, the board consists of 18 health professionals from 14 countries. Herbalife is actively recruiting additional members, planning to increase the board to 20. Board members work with Herbalife's internal team of physicians, scientists and marketing experts to help distributors stay current on wellness information and translate the complex information to their clients.

"They're all part of our extensive support system of excellent resources," Henig says. "They take the science behind products and help us craft simple messages that capture the essence of what our products can do. We vet that, then have focus groups of distributors who test the messages. Once we've captured the message in a few bullets and I'm satisfied from a scientific standpoint, then you've got the pitch. We work hard to simplify a complex message."

With distributors around the world, Herbalife must not only provide an understandable message about products, sales methods, business tools, company information and nutrition news, it also has to offer methods of accessing information on demand and around the clock. Enter MyHerbalife.com, a password-protected Internet site for distributors available in 18 languages. It provides all the information distributors need at the click of a mouse, and it is home for HBN, Herbalife's online news and information program streamed to distributors worldwide.

Safety First

Clinical trials of Herbalife products and their ingredients are also critical to maintaining distributor trust. "We're building more and more specific clinicals into our program to back up our products," Henig says. "We rely on published information as well as generating our own information. Every product we sell has a white paper that contains all the scientific safety data on that product, coupled with all its specifications. It serves as an insurance policy that the product performs against the intended claim we're making for it."

Herbalife's insistence on the quality and safety of its products was part of the reason Henig wanted to join the company. In fact, one of Herbalife's bounce-back stories helped recruit him. It can be summed up in one word: ephedra.

"The way the company handled ephedra was part of what made me admire it," Henig says. "There were FDA-related concerns, and even though the science behind the concerns was very questionable, the company was very decisive. Even before they were 100 percent sure that ephedra might be harmful, they took the initiative and removed it from the market. To me, that was a commitment to staying on the safe side of things. Today we continue to be absolutely vigilant about the safety of our ingredients. We check the clinicals behind them to ensure their safety at the dosage we recommend. We are committed that if we find something that is causing an adverse reaction, we're not going to have it in our products."

Keeping It Fresh

CEO Johnson also believes that the science behind products helps buttress distributor trust and bolsters the brand. Once that confidence is in place, new-product introductions keep up the excitement. Since Johnson joined Herbalife, he has directed a huge product launch each

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year, including Niteworks™ for overall cardiovascular wellness in 2003; the Shapeworks™ weight-management program and Garden 7™ essential fruit and vegetable phytonutrients in 2004; the vitamin-based skincare line NouriFusion™ and LIFTOFF™ effervescent energy drink in dissolvable tablet form in 2005; and Best Defense™, an effervescent tablet to help boost the immune system, and the Skin Activator® anti-aging skincare line with glucosamine complex in 2006. Herbalife also recently launched a brownie-flavor protein bar and two new soup flavors, which are both sold and manufactured in Brazil.

“New products give distributors an exciting rally point,” Johnson says. “They have to have something new and fresh to talk to customers about. New products and new product lines serve to refocus distributors every year. They give us a chance to go back to basics, build excitement and focus. It’s also an opportunity to reintroduce our science team. One of my major focuses has been on clinically proven efficacious products. We’re going to stay that course.”

Johnson also plans to continue to invest in sponsorships and marketing events that help to build the Herbalife brand and create a warmer market for distributors. From professional sports tournaments to marathons and 10K races, sponsorships raise the company’s public profile and demonstrate that it walks the wellness talk.

As Johnson looks into Herbalife’s future and ponders its strengths, he says that he is excited about the opportunity of having a direct marketing sales channel in China. The company already has manufacturing facilities there and hopes to be approved for direct sales soon. Johnson describes it as “an exciting opportunity in ’08.”

And to illustrate the company’s ongoing love affair, he succinctly states Herbalife’s top three keys to success: “Distributors, distributors, distributors.”



Executive Connection

Click here for an exclusive interview with Herbalife CEO Michael O. Johnson



Executive Connection:
Michael O. Johnson
CEO, Herbalife

We're pleased to introduce our new monthly online feature: Executive Connection. Each month, *Direct Selling News* Publisher and Editor in Chief John Fleming will conduct a candid interview with a notable industry leader.

1. What is the one thing you enjoy most about being CEO of Herbalife?

It has to be two things—our Distributors and our products. I love talking to our Distributors. I always learn something. They are the most diverse group, yet they all share the common bond of wanting to change people's lives. They live and breathe this company and it's a pleasure to be able to talk with them everyday. Our products are outstanding. I'm very proud of what we offer and personally, they help me maintain a healthy, active life through good nutrition.

2. How would you describe the ideal Herbalife Distributor?

We have a diverse group and I appreciate that diversity but great Distributors do have certain things in common. They are passionate about our Herbalife products and business opportunity because they've improved their own health and financial well-being, and they genuinely want to share that with others. They're hardworking, entrepreneurial, ethical, and involved in some form of community service—and they're fun to be with too.

3. Is leading a company like Herbalife different from leading at Walt Disney, where you came from?

The principles of good management are pretty much the same everywhere and I was used to leading an international business so those things are similar. If you think about it, both companies involve telling stories. We call Herbalife a company of stories—the testimonials of our Distributors—wonderful success stories. Joining a team with over a million Distributors was a new dynamic for me in 2003. Our Distributor leadership is instrumental to the way I lead Herbalife. It's important to first understand what's needed and then do the right thing for all Distributors—and to communicate clearly about what you are doing and why.

4. Herbalife has been very successful under your direction. To what do you attribute your success?

Enthusiasm. I'm enthusiastic about what I get to do everyday. Hiring people who are smarter than I am—we have a very talented management team. Learning from our Distributors and supporting them in building confidence in Herbalife. Our corporate value says it all: "We are driven by the needs of our Distributors and inspired by their stories."

5. What do you see as our industry's greatest challenge?

I think we have a challenge to change the public perception of direct selling so there's more respect and appreciation for the business method. Engaging other companies to work with the DSA and abide by the DSA code of ethics helps address that challenge.

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6. *How involved are you with Herbalife Distributors?*

Totally involved. I am working with our Distributor leadership constantly and talking with Distributors via phone, email and at meetings every single day—and night—of the week.

7. *What is your favorite way to relax?*

A long, tough bike ride with good friends.

8. *When are you happiest?*

With my family—and if it's all of us together after a day of skiing, even better.

9. *Is there one basic principle that has governed your leadership at Herbalife?*

Integrity. I expect integrity in everything we do: in our products, in our business opportunity, in our brand and in our image. “We take the high road” is one of our values statements, and we apply that to every decision, every action.

10. *What is your vision for Herbalife?*

Our vision is to be the best nutrition and direct sales company in the world.

11. *Leaders usually draw on something or someone for inspiration, guidance and direction. Do you have a hero or heroine?*

How about three?

First, the two most important women in my life: My mother was a very strong influence. One day after I'd behaved badly about something she sat me down and said, “Michael Johnson—to those whom much has been given, much is expected.” She set that example for our family and those are words I live by.

My wife Mari Snyder Johnson has been inspiring me for more than 20 years. She has tremendous strength of character and I'm constantly amazed by her willingness to take on a new challenge. She's an incredible mother to our three children. She's been a successful CEO, produced a major movie, and is very active in our community. But most of all, she has a great heart.

And number three: Winston Churchill. I've always admired Winston Churchill. I find his story, his actions and his words—inspirational. He persevered through many ups and downs in his own life and of course, was an amazing leader for his country in the most difficult of times.

12. *What book(s) have you read recently?*

Right now, I'm reading *The Greek Way* by Edith Hamilton.

13. *Where were you born and raised?*

Michigan—I was born in Muskegon and raised in Jackson and I spent a lot of time at a lake house our family had in southern Michigan. It was a great place to grow up.

14. *How do you communicate with your team?*

Every way I can—and face-to-face whenever possible. I have a great team—Team Herbalife!