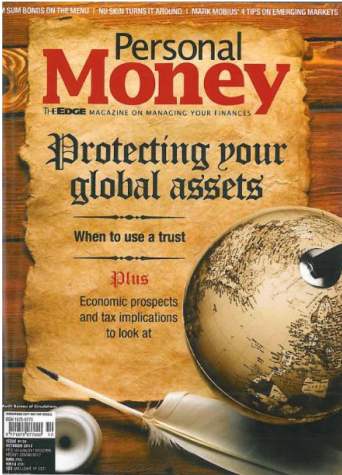




NU SKIN.
THE DIFFERENCE DEMONSTRATED.™

NU NEWS

Personal Money Magazine (Malaysia) – 2 October 2012



Personal Finance

The Nu Skin story

There are no shortcuts to building an MLM business. But if you put in the necessary time, effort and money, it may be very rewarding. Nu Skin Enterprises, Inc has made inroads into the Malaysian market. Here's why.

► BY JENNIFER JACOBS



Quijano: You need to take the time to learn it [the business plan]. But how is that different from any other profession where you expect to make a lot of money? You don't become a doctor overnight.

Building up a profitable multi-level marketing business will probably be the hardest thing you'll ever do, but if you persevere, it can be extremely rewarding, says Melisa Tantoco Quijano, president of the Pacific and Southeast Asia regions, Nu Skin Enterprises, Inc.

She's very clear about one thing — it's not an easy way to make a quick buck, neither is it a get-rich-scheme. And she denies that any Nu Skin distributors are selling it as such. "At the rate we're growing, they can't be saying inaccurate things because it will be bad for business. I'm quite positive that most of our distributors are very truthful about this."

Quijano, who spoke with *Personal Money* in Singapore recently, admits that the Nu Skin business plan is difficult to understand. "You need to take the time to learn it. But how is that different from any other profession where you expect to make a lot of money? You don't become a doctor overnight. Nor a lawyer. You need to study for many years, put in the passion and commitment... not to

mention, a lot of money.

"We can guarantee it won't take you four years to understand our business plan. But there are no shortcuts, no secrets. It will take a lot of hard work and commitment. And not everyone is prepared to put in the time and effort," she adds.

Why Nu Skin? "We have great products. We specialise in the anti-ageing sector. We provide both skincare and supplements and our products are based on real, solid scientific-based research. In fact, the introduction of our ageLOC transformation set was partly responsible for the turnaround in the business in this part of the world"

And, she adds, Nu Skin's compensation plan is one of the best in the industry. However, a glance at the Wealth Maximiser Plan does demonstrate that it is not easy to understand. It will require careful study to identify the opportunities.

Quijano says most people sign up as distributors because they like the products. "They sign up because they like to use one or another of our products, and then they notice that they are earning points. They tell their friends about the products, and if their friends want to sign up, they say, just remember to put my name, so I can get points. After a while, the money starts to get their attention and that's when they decide to do this as a business.

Besides, she says, Nu Skin has regular sales and leadership training programmes for its distributors. "You have a lot of leaders who have gone before and who are willing to teach you and show you the way. There is no need to reinvent the wheel." •



UP CLOSE AND
PERSONAL WITH
PRESIDENT AND CEO
TRUMAN HUNT

Nu Skin Enterprises, Inc, is one of the more well-known and successful direct selling companies in Malaysia. Founded in 1984 in the US, it distributes more than 200 anti-ageing products in both personal care and nutritional supplements. It presently operates in 53 international markets across the Americas, Asia-Pacific, Europe, Africa and the Middle East, and has more than 890,000 active independent distributors.

Many readers have expressed reservations when it comes to direct selling companies, their methods of recruitment and their outlandish claims of potential compensation. So, *Personal Money* got up close and personal with Nu Skin's president and CEO Truman Hunt at the 2012 Southeast Asia Nu Generation Regional Conference to ask him the questions that they wish they could.

Personal Money: Is it true that only 0.06% of your distributors make money?

Hunt: No. The earnings statements that we publish require that we include in the denominators [when we're calculating average income], anyone who has ever signed up as a Nu Skin distributor. That includes hundreds of thousands of people who sign up but never really pursue the business as a meaningful source of income. So, that distorts our average

income to be lower than it really is for those who really try to build the Nu Skin business.

So what about those who really try? What's the average income?

Those who really try are the ones we call executive distributors. The average income for executives is a few thousand dollars a year.

But how much do they have to spend first?

If they buy the products, they're reselling the products or using the products, so that's not really an investment. But they obviously do spend some money on gasoline or whatever else they need to spend on to try and develop their business.

So, the reality is that direct sales, generally, is still the lowest investment really possible for a significant income opportunity. For example, my sister called me a few months ago to say she needed my support in buying a franchise. This particular one makes cakes and she's buying nothing but the franchise. So, I ask how much that was going to cost. And all in, by the time you pay the franchise fee and build the restaurant, it's about US\$400,000. And you're investing that much, to maybe make US\$30,000 to US\$40,000 a year. If you're successful.

In Nu Skin, you can become a Nu Skin distributor for US\$50. You spend very little money. And whatever you spend is whatever you choose to spend for this prospect of making

significant income. Our top-level leaders make on the average about US\$40,000 a month.

Can you explain your associate representative structure and compensation plan?

And as I mentioned, the majority of those who sign as distributors really never enter the process of becoming an executive on a full-time basis. They sign up to buy products at wholesale prices, and maybe buy a few products and resell them to some friends. So, for a distributor, it's just a single-level opportunity, buying products at wholesale. You consume them or you resell them at whatever price you choose to resell it for.

If you want to become a sales leader and start receiving multi-level

Hunt: We know from having run our own math that more than 70% of our sales volume goes directly to consumers who aren't even participating in the income opportunities. So where's the pyramid scheme in that?





NEW FRONTIERS

compensation, you submit a letter of intent, and you enter a qualification period, which is usually between three or six months where you have to hit certain sales levels to qualify to receive multi-level compensation. As you become an executive, you also have the opportunity to recruit other people to grow your organisation and receive overrides on the products they sell as well. So, the more executives you establish on your first level, the deeper you can reach into the compensation structure. It goes from one executive on your first-level, which is called the gold level, all the way up to 12 executives, which is called the Blue Diamond. And the more you have, the deeper you go into the downline organisation in terms of receiving commissions. Our top level of leadership, called Blue Diamonds, receive 5% on six levels of distributors below them.

Have there been cases where people got into serious credit-card debt by trying to move up the levels too quickly?

We obviously discourage getting into credit card debt. But when people are buying products they aren't reselling, they do have the opportunity to return them. And we happily take them back for up to a year.

What is the difference between a product-based, multi-level marketing company (MLM) and a recruiting MLM?

All multi-level marketing companies pay overrides on downline sales. Virtually every direct-selling company, including Avon, pays multi-level commissions. It's just a question of to what extent.

Avon would allocate probably allocate less than 10% of its sales to multi-level commissions whereas in Amway, they might allocate 30% to 35% of revenue in commission. Herbalife is about 35%, we're about

42% and some companies are as high as 50% to 55%.

If you pay higher multi-level commissions, does that make you more of a recruiting company than a product-based company?

That's not really the right paradigm. If anyone is trying to figure out whether a multi-level direct-selling company is essentially operating a pyramid scheme, the question is, are the products that are being sold by that company being consumed? And if they are, then consumers are buying the product to use them and not to participate in an income opportunity.

In our case, we know from having run our own math that more than 70% of our sales volume goes directly to consumers who aren't even participating in the income opportunities. So where's the pyramid scheme in that?

Your stock price plunged 35% in May this year. Is it true that the investigation into Herbalife for potential violation of securities laws in the US had something to do with that?

On the Herbalife earnings call in the first quarter, a well-known investor called David Einhorn got on the call and started asking questions on Herbalife's business model.

Einhorn has made a lot of money by shorting company stocks and then publicly going after them for whatever allegations he can raise. And just by getting on that call and asking a few questions, Herbalife's stocks started to drop and ours started to drop with it because we run a similar model. So, the investor concern was that Einhorn was going to initiate a short position in Herbalife and potentially other direct-selling companies like us, and that's why our stock price dropped 35%.

Has it recovered since then?

Yeah, we bounced back. We bottomed at about US\$40. We went from US\$60 to US\$40 and now we're at the high US\$40s. Now we're able to monitor to some extent, short interest. It's hard to do because they're tricky in the way that they trade and they're using offshore accounts and their business practice is to target companies. They tend to work together, they tend to tag team and put as much economic pressure as they can on company stocks. Then they go out and leverage their influence in the media to spread rumours and make allegations.

We know that our short interest has gone down since May by about 25%. Shorts seem to be coming out of our stock, but there's still some short pressure. And frankly, it's really frustrating because the allegations that they raised about us and about our industry are distorted and intentionally misleading to cause investors concern and fear so that they can drive our stock price down.

Most people worry about the potential for market saturation when it comes to direct-selling companies. It's all right if you're one of the first few to be signed up, but what about people later down the line?

That's the theory but here we are, 30 years later and the people who are cutting the biggest cheques today are people who joined the business in the last few years.

Market saturation has never been a problem. Amway is a 60-year-old company and they're still growing at record pace. The only direct-selling company that I can think of that has suffered from its size or the potential of market saturation is Avon. They're 110 years now and US\$10 billion to US\$11 billion in revenue. And they're struggling to continue to grow. But that's the only example I can think of. And it's 110 years later. ■



THE U-TURN IN SINGAPORE, MALAYSIA AND BRUNEI

Michael Chen, Nu Skin Enterprise, Inc.'s president for Singapore, Malaysia and Brunei, was hired to turn the three markets around in 2007. In the preceding two years, Nu Skin's business in the three markets had been stagnating or experiencing negative growth.

When he studied the business, Taiwan-born Chen found two major weaknesses. Firstly, the offering was too diffuse. There were too many products and it was difficult for distributors to learn enough about each product. Secondly, the compensation plan did not focus on business building.

Chen was nothing if not swift. He decided that these markets would focus on two product sectors — anti-ageing and weight management. This way, it would be easier for distributors to learn the needful about the products they were trying to sell. Then, he amended the compensation plan to reward business building.

STREAMLINING ITS PRODUCT FOCUS "We have several hundred SKUs [stock-keeping units]. In the past, each of our distributors may have had their own emphasis. Men tended to promote health, women, beauty. So, we asked the distributors to focus on just two areas — weight-loss and anti-ageing. We were not asking them to do more, but just to do things more simply," he says.

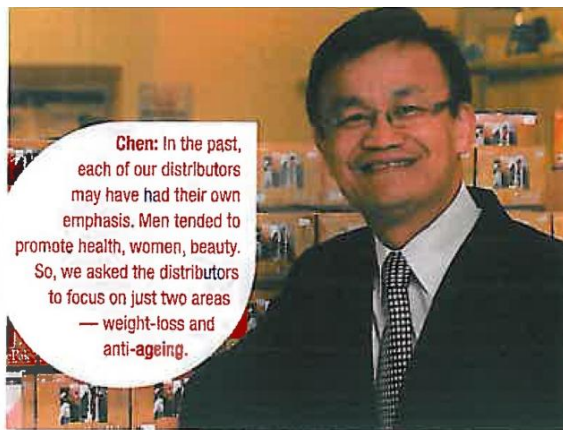
The company started to turn

around. Then, in 2010, it hit pay dirt with the introduction of the ageLOC transformation set, a collection of skincare products and devices that target the eight signs of ageing. "It was a breakthrough product. First, we identified and targeted those genes responsible for youth expression. Then, we found the proper ingredients to try and reset these genes.

Naturally, genes are inherited from parents. But the expression of those genes is dependent on environmental factors such as diet, pollution and stress. "The ageLOC technology's aim is to find an ingredient that can pass the message to those genes and reset their expression. Our first product was the ageLOC transformation set. Our clinical studies indicated that the eight signs of ageing were improved over the course of the 12-week study."

Word got out about Nu Skin's success, especially in Southeast Asia. "Before we launch any new product, we do a pre-sale to distributors. Previously, the average global takings from a pre-sale were about US\$5 million. We were asked to do a projection for these three markets — Malaysia, Singapore and Brunei — and we projected US\$7 million. Headquarters thought we were crazy," explains Chen. "We managed to sell US\$25 million!"

How did this come about? Positioning. Weight management is one of the company's best-selling products. So, Chen and his team decided to target the people who had undergone the programme. "It was a good lesson. In the past, we were



Chen: In the past, each of our distributors may have had their own emphasis. Men tended to promote health, women, beauty. So, we asked the distributors to focus on just two areas — weight-loss and anti-ageing.

limited in our thinking and we only managed to make a certain amount. But we found that if we positioned and promoted the products correctly, we could really create a big splash."

Recently, the company came up with a new product, the R² anti-ageing supplements. Launched at the Singapore convention, it saw sales of US\$51 million, more than twice the record-breaking sales of the transformation set. (The R² is being registered by the Ministry of Health, Malaysia.)

The stellar performance in these markets has had several effects. For one, headquarters is now using the demand (from Southeast Asia) to drive research and development. The most immediate outcome was seen in three products that were in the pipeline, each codenamed by a Greek letter — ageLOC alpha, ageLOC beta and ageLOC gamma, which were to be developed in sequence. However, ageLOC gamma, which relates to weight management, cut the queue and will be introduced next October.

NEW REMUNERATION

The company's new compensation plan, the wealth maximiser, encourages distributors to build their

business rather than just sell products. "When I took over in 2007, we taught, guided and encouraged the distributors to build their business but we didn't change our compensation plan until 2009."

Chen says the minimum qualifications for executiveship had not been changed in the 11 years the company had been in these markets. "This means if you were selling a certain amount 10 years ago, and you were still selling that amount today, you could still maintain your executiveship. If you sold more, you would get more commission but the qualification didn't change."

He upped the minimum requirement and changed the compensation structure so executive distributors would not just earn more, but much more, if they signed others up. This year, he introduced the commission maximiser, which is a slight tweaking of the system.

Chen's two measures worked. Since then, the Malaysia, Singapore and Brunei markets have registered an average compound average growth rate of 26.8%, twice the company's worldwide CAGR [compound annual growth rate] of 13%. ■