



Nutrition Business Journal[®]

VOLUME XII • NO. 4 • REPRINT • nutritionbusiness.com

STRATEGIC INFORMATION FOR DECISION MAKERS IN THE NUTRITION INDUSTRY

Market America Charts Course Towards Mass Customization

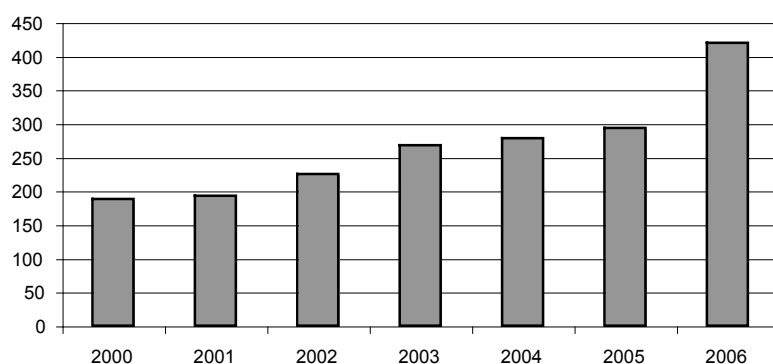
Nutrition and anti-aging products comprise the core of this one-to-one marketing business.

We're kind of like a cross between QVC and Amazon.com: QVC because we don't make a thing and market directly to the consumer... and like Amazon because we're an online shopping experience," said J.R. Ridinger, president and chief executive officer of the product brokerage and Internet marketing company, **Market America Inc.** (Greensboro, N.C.). However, a crucial difference in Market America's effort to revolutionize the way consumers shop is its battalion of 150,000 customer managers, also called 'unfranchisees', who develop close, one-to-one relationships with end consumers. And this is precisely what Market America expects to be its big differentiator.

Consumers Drive Product Selection

These close relationships allow distributors to dig down and identify shopping needs by tracking consumer profiles and preferences, which can then be met by Market America's own Mall Without Walls stores and its 2,000 or so Portal Partners. Intriguingly, it's the consumers themselves who have shaped Market America's strong nutritional bias, according to Ridinger: 60% percent of Market America's volume relates to health, wellness and anti-

Market America Worldwide Sales (consumer in \$mil)



Source: Market America

aging—driven by consumer interest rather than by strategic intent.

Focus groups may be the classic mass-market tool for testing a product concept, but imagine being able to tap into thousands of opinions—literally overnight—to guide the development of your portfolio. Whether the item was already manufactured by a third party or merely an idea whose time had come, "almost all of Market America's nutritional products were originated by one of the company's distributors," said Ridinger. "This is the most amazing thing about our company I think. We don't define what products we're in... We've become largely a nutrition company because that's what people have asked us to be."

Information about consumer preferences is reeled in by customer managers via regular surveys of their consumer base. *HeadRest Head Comfort Formula*, for example, a supplement with feverfew, butterbur, magne-

sium and riboflavin, was developed in response to over 100,000 requests for a product that would reduce the chance of having migraine headaches. "We knew we had enough of a market and interest to source the product out," said Ridinger. "The neat thing about it was we knew exactly who it was that wanted it." Market America even launched a version of its leading dietary supplement, *OPC-3*, for canines after surveying existing *OPC-3* users who were also dog owners. "These are not blind surveys," said Chief Operating Officer Marc Ashley, but surveys guided by detailed consumer profiles. "Surveys won't do us any good if we're not sending them to people they're relevant to."

Between 100 and 1,000 products or concepts are brought to Market America's attention each month. An in-house team of some 30 science and medical professionals review the merits of nutritional items. If a product passes muster, and it is a market the company wants to enter, it is sourced out to a contract manufacturer.

Continued

“We look for a good company with good research, good product development and its own scientists,” said Ridinger. “We’re looking for the best vendors qualitywise; pricewise it’s very sensitive because we’re passing that on to the unfranchise owner.”

Isotonix Leads Nutrition Offerings

Market America’s Mall Without Walls is populated with proprietary, “market-driven” products to which Market America has either secured exclusive rights or developed inhouse. “We don’t try to put something in the Mall Without Walls that’s the same as what you’d find on retail shelves,” said Ridinger.

The top-selling nutritional product is *OPC-3* from Market America’s original *Isotonix* line of powdered supplements, which are mixed with water for easy absorption. *OPC-3* contains bilberry, grapeseed, red wine and *Pycnogenol* pine bark extracts, in addition to citrus extract bioflavonoids. Market America secured a protected position for *OPC-3* with its original manufacturer. “*OPC-3* is a very proprietary formula, so we made an arrangement with that company that we would be their only customer,” said Ridinger. So proprietary is the formula that Market America has been reluctant to have it manufactured anywhere else, even for its overseas markets. Consumers can also purchase *Isotonix Custom Cocktails* tailored to individual needs based on lifestyle information; a 30- or 60-day supply is shipped with the customer’s name on the label.

In total, Market America has over 100 nutritional products comprising around 250 SKUs. The second biggest seller is *Ultimate Aloe Juice*, followed by the *Heart Health* system. Other items include the *Transitions* line of weight management entrees and supplements; *NutriClean* for internal cleansing; *Torch* performance supplements, *Awake* energy drinks, and various condition-specific products. The company also offers *Gene SNP*, a DNA screening kit and customized nutritional supplements derived from swab samples analyzed by Sciona, a company that provides health and nutrition recommendations based on diet, lifestyle and genetic profile. The test has done

well in the company’s *NutraMetrix* line for health professionals, Ridinger noted.

Pursuing ‘Share of Customer’ Rather Than ‘Customer Share’

Nutrition is the focus of 50-60% of Market America’s ‘unfranchisees’—so named because while their businesses are structured and regulated like a franchise, no royalties or fees are involved. They are equipped with a custom web portal, trained in customer management, and encouraged to specialize in one or two product areas. Unfranchise owners maintain a portfolio of 10-50 customers, “and that’s the glue that holds the program together: relationships with customers,” said Ridinger.

“We’ve become largely a nutrition company because that’s what people have asked us to be.”

“Instead of endlessly adding people on as a multilevel marketing distributor does, they focus down vertically on these two distribution levels,” said Ridinger. “When they max out their income they open up another unfranchise in the same or a different product area.” Ridinger cited industry statistics showing that most people can’t develop more than 2.8 lines of distribution successfully. “We have a way now for people to make more money on just two lines: There’s no levels in our program, but infinite search in which it continues to look for volume rather than paying on levels.” In other words, the relationship may start with a consumer buying an energy drink but end up as a much broader shopping experience: “We’re able to offer them over the Internet almost anything they want,” said Ridinger. Unlike multilevel marketing companies there’s no inventory loading or pressure to sign people up, he added.

Market America has annualized revenues of \$435 million per year in retail sales, or \$320 million wholesale, of which 75% is in North America. Mall Without Walls is the more profitable side of the business, run on margin and

in which products are inventoried, invested in, subject to stringent quality control and R&D investment. Besides nutritional products, the Mall Without Walls sells cosmetics, home and garden products, cleaners, auto care, Internet services, flowers, personal care and more. According to Ridinger, 32% of total business volume comes from these non-nutrition Mall Without Walls stores.

The second component of Market America’s business is its Affiliate Partner Program, which currently features 2,000 vendor-partners—from Disney to Wal-Mart to Mom and Pop stores. Market America earns commissions on sales, with the Partner Portal currently accounting for around 10% of business. Prices through the Portal are similar to if not lower than going directly to a Partner’s website, because Market America’s 3 million ‘preferred customers’ have access to special deals.

Small Portal partners are also part of Market America’s business plan. The company will support a Mom and Pop business by providing a website and e-commerce capabilities; it is currently developing interactive webware to upload SKUs, product information, do money collection and other tasks.

Market America has entered Taiwan, where it reported doing extremely well last year, and is set to open Hong Kong in September 2007. Materials are being translated into Spanish to focus on the 40 million Hispanic Americans in the United States and Puerto Rico before turning to Spanish speaking countries. The company is also looking closely at the United Kingdom. Its first overseas experience was Australia in 2002, which has proven “a very reliable and stable market,” said Ridinger.

While Market America is seeing growth in many product areas and looks forward to further international expansion, “we’re never going to see the nutrition, antiaging market decline” because of the size of its constituency,” Ridinger predicted.

Reprinted with permission from Nutrition Business Journal, a publication of New Hope Natural Media. ©2007 Penton Media Inc. All rights reserved.