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## **Sales Management: Analysis and Decision-making**

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### CASES FOR PART FOUR

# Shaklee Corporation

Shaklee Corporation is the leading U.S. seller of vitamins and nutritional products, having achieved this position primarily because of its two-million member direct sales organization. Members of this “Shaklee Family” do not only sell Shaklee products: they live and breathe the whole Shaklee philosophy of good nutrition and health. The importance of the field sales force is recognized by Shaklee president, Gary Shansby, who boasts, “Many people from industry don’t understand direct selling. Someone else could copy our products and our sales plan, but they couldn’t copy our sales people.”

The company’s only advertising is product ads in its monthly publication, *Shaklee Survey*. These ads are directed at its salespeople, who are continually reminded that they must use the products before they can sell them, since they cannot sell any products in which they do not believe. This emphasis on the sales force, making sure morale is high and the salespeople motivated, claims Shansby, has gotten Shaklee Corporation where it is today and will take it where it plans to be tomorrow: “What IBM is to computers, what General Motors is to cars, what Procter and Gamble is to soap, Shaklee will be to nutrition.”

### **History of Shaklee**

As a boy, Forrest Shaklee was fascinated by carnivals and touring shows. Intrigued by the audience appeal and the message of the touring sideshow artists, Shaklee took to heart the showmanship techniques he saw demonstrated, as well as the occasional wisdom he heard expounded. He soon became an assistant for some of these traveling showmen. There was “Professor” Santinelli, a well-known hypnotist, who frequently lectured Shaklee on the power of positive thinking: “What you think, you look; what you think, you do, what you think, you are.” There was also the physical fitness and nutritionist “expert,” Bernarr MacFadden, who toured the country entertaining audiences with awesome weightlifting feats and promoting his health magazine. Shaklee assisted in the feats of strength show by hoisting a hollow ball purportedly weighing 500 pounds.

Shaklee’s philosophy of life, good mental and physical health, gradually crystallized, and he became convinced of the effectiveness of salesmanship and showmanship.

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## **Exhibit 1 Code of Ethics**

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*As a Shaklee Distributor,*

- (1) I will operate by, and fully support, Shaklee's philosophy of doing business by the Golden Rule.
- (2) I pledge not to misrepresent Shaklee products or the Shaklee Corporation. I will present products, information about the Sales Plan and the Shaklee Corporation in an honest, truthful and straightforward manner to my customers and to potential Shaklee Distributors.
- (3) I will stand behind the Shaklee Corporation Unconditional Guarantee of product quality and performance and customer satisfaction. I will provide my customers with service reflecting the highest intent of the Golden Rule and Shaklee philosophy.
- (4) I will strive to reflect the highest standards of integrity, honesty and responsibility in dealing with my customers and with other Shaklee Distributors.
- (5) I will accept and carry out all responsibilities that come with my advancement to various levels of earned honorary rank.
- (6) I recognize and support the efforts of the Direct Selling Association of America to establish, implement and maintain the highest standards and practices of truth in selling for all companies in the Personal Selling profession. Shaklee Corporation has been recognized as an active and supportive member of the national organization since 1964, helping to set the standards for the entire industry.

Besides carnivals, Shaklee tried several other careers. He was a film distributor, an inventor, a chiropractor (who once had a Davenport, Iowa, parade in his honor featuring a fifty-foot replica of a human spine), and a lecturer (whose favorite topic was "Thoughtmanship" – "The trouble with most people is that they emulate the humble sheep . . . blab, blah").

During this time, Shaklee continued to develop his interest in nutrition; it grew as he noticed improvement in his own health by taking food supplements. Shaklee even claims to have cured himself of tuberculosis and terminal cancer by proper nutrition. As a chiropractor, he not only recommended food supplements to his patients, but also developed his own supplements. He soon discovered that he was spending more of his time developing his food supplements and emphasizing this part of his chiropractic business. In 1956, the sixty-two-year-old Shaklee, with his two sons, Forrest, Jr., and Raleigh, decided to form the Shaklee Corporation.

From the beginning, Shaklee planned to develop products that were designed to work "in cooperation with nature." This theme is carried through in Shaklee products today: household cleaning products that are biodegradable and nonpolluting, cosmetics and toiletries that are intended to promote healthy, attractive skin and hair, rather than follow fashion fads, and the vitamins and food supplements that use natural ingredients that are low in potency, as they are found in nature.

Another underlying principle of the Shaklee Corp. is “Dr.” Shaklee’s belief that a business should be based on the Golden Rule; the company still stresses integrity and fairness in the code of ethics which salespeople are expected to follow (see Exhibit 1). Company literature is sprinkled with sayings like, “An unselfish desire to help others is more effective than just a sales pitch.”

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## **Exhibit 2 Shaklee Corp. Income Statement**

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*In thousands, except per share amounts*

Year ended September 30	1979	1980	1981
Sales revenues	\$314,149	\$411,331	\$454,522
Costs and expenses:			
Cost of goods sold	84,874	115,587	116,200
Volume incentives	131,410	171,540	189,569
Selling, general and administrative expenses	62,970	83,719	100,883
	279,254	370,846	406,652
Operating income	34,895	40,485	47,870
Other income (expense):			
Interest income	3,034	3,530	3,895
Interest expense	(545)	(3,218)	(2,208)
Provision for plant closings and discontinued products	—	(16,000)	(1,000)
Foreign exchange gains (losses)	(16)	163	(635)
Miscellaneous, net	(14)	(208)	(1,191)
	2,459	(15,733)	(1,139)
Income before income taxes	37,354	24,752	46,731
Provision for income taxes	16,066	12,681	22,188
Net income	21,288	12,071	24,543
Retained earnings, beginning of year	54,850	71,605	78,723
Cash dividends (\$1.00, \$80 and \$.74 per share)	(4,533)	(4,953)	(6,228)
Retained earnings, end of year	\$ 71,605	\$ 78,723	\$ 97,038
Net income per share	\$ 3.43	\$ 1.92	\$ 3.85

Source: Annual Reports

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## **The Company**

Shaklee Corporation has a long history of growth. In 1981 the company achieved sales of over \$454 million, a 10 percent increase over 1980. Although domestic sales were up only 4 percent, international sales, primarily from Japan, were up 51 percent to \$83.3 million. Income Statements and Balance Sheets are shown in Exhibits 2 and 3.

The president and chief operating officer of Shaklee is forty-four-year-old J. Gary Shansby. Before coming to Shaklee in 1976, Shansby was a senior officer and marketing consultant with Booz, Allen, and Hamilton, a consulting firm, and before that, he had been with Colgate-Palmolive, Clorox, and American Home Products. When he came to Shaklee, he was faced with declining profitability of the company, due primarily to the company's unsuccessful entry into the European market. He immediately consolidated European operations and took a foreign loss of \$3 million for that year.

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### **Exhibit 3 Shaklee Corp. Balance Sheet**

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	1977	1978	1979	1980	1981
Cash	\$ 1.4	\$ 4.8	\$ 2.1	\$ 7.0	\$ 4.7
Short-term investments	53.4	9.2	24.2	19.4	21.6
Receivables	2.3	1.8	2.8	5.9	8.0
Inventories	25.7	42.6	32.6	42.9	51.3
Other	1.9	3.1	8.9	10.0	12.7
<b>Total current assets</b>	<b>\$ 84.8</b>	<b>\$ 61.5</b>	<b>\$ 70.6</b>	<b>\$ 85.3</b>	<b>\$ 98.3</b>
Automobiles	\$ 18.8	\$ 26.5	\$ 30.8	\$ 27.9	\$ 14.6
Machinery improvements and building	16.8	33.6	74.6	69.8	91.3
Gross plant	\$ 35.6	\$ 60.1	\$ 105.3	\$ 97.8	\$ 108.0
Less depreciation	(8.9)	(12.6)	(17.6)	(15.5)	(19.5)
Net property, plant and equipment	\$ 27.1	\$ 47.5	\$ 87.7	\$ 82.3	\$ 88.5
Land	0.4	0.4	1.9	1.6	2.0
Other	3.3	3.7	4.5	4.0	4.8
<b>Total assets</b>	<b>\$ 115.3</b>	<b>\$ 113.0</b>	<b>\$ 164.7</b>	<b>\$ 173.2</b>	<b>\$ 191.7</b>
Debt currently due	\$ 5.6	\$ 0.9	\$ 8.8	—	—
Payables	7.3	5.2	10.9	12.4	10.6
Advance sales deposits	7.6	0.2	5.5	2.3	0.7
Accrued volume incentives	7.6	7.1	6.4	10.0	11.1
Accrued liabilities and taxes	21.1	16.3	17.5	28.2	28.9
<b>Total current liabilities</b>	<b>\$ 49.2</b>	<b>\$ 29.6</b>	<b>\$ 49.2</b>	<b>\$ 52.9</b>	<b>\$ 51.3</b>
Long-term debt	\$ 16.3	\$ 14.9	\$ 28.0	\$ 22.6	\$ 20.2
Deferred taxes	4.6	6.8	8.7	10.7	14.5
Common equity	45.2	61.7	78.9	87.0	105.6
<b>Total liabilities and equity</b>	<b>\$ 115.3</b>	<b>\$ 113.0</b>	<b>\$ 164.7</b>	<b>\$ 173.4</b>	<b>\$ 191.7</b>

Source: Annual Reports

Concentrating on the U.S. market, Shaklee's sales and profits rose in 1977, thanks to the huge demand for Shaklee's Instant Protein®, a meal replacement product that benefited from widespread consumer interest in liquid protein diets.

About this time some pricing problems developed. Shaklee had always sold its products for a premium price, claiming that its “natural” vitamins were better than “synthetic” vitamins. In keeping with this pricing strategy, Shaklee’s prices increased 35 percent between 1974 and 1977, with an increment of 10 percent posted in November, 1977 (unfortunately just as the company reported record profits). Discount health food stores, such as General Nutrition, were growing rapidly, and Shaklee distributors and customers began complaining about excessive prices. Morale of the sales force was dampened not only by the consumer price resistance, but also by Shaklee’s voluntary move to post all ingredients on its labels; this change divulged that certain formulations were not as completely natural as distributors and customers thought. While Shaklee remained a premium-priced, largely natural product, the concept of natural vitamins was being questioned. For example, the chairman of the American Institute of Nutrition’s Committee on Public Information was quoted as saying that Shaklee’s claims of superiority for its natural vitamins, as opposed to synthetic vitamins, were “pure drivel and utter nonsense.” A further blow to field morale came in 1977, when the FDA issued an advisory opinion warning of the dangers of a liquid protein diet. In the wake of adverse publicity, Shaklee’s sales of Instant Protein®, its largest seller, dropped 40 percent. After the initial panic, sales did improve over the next few years.

Shansby made several strategic decisions to correct some problems. He instituted a price freeze to be in effect for several years, even at the sacrifice of gross margins, so that the company could reestablish the price/value relationship for its products. He decided the company should have more modern, more centrally located manufacturing facilities; so, in 1980, it built a \$50 million plant in Norman, Oklahoma. The 250,000 square foot facility enabled the company to produce its products at a much lower cost than it was able to do in its older and less efficient facilities in California. Also in April, 1981, Shaklee purchased a manufacturing plant in Fort Worth, Texas. With these two-facilities, it can now manufacture over 90 percent of its own nutritional products and distribute all its products through the five field service centers located in various parts of the U.S. (see Exhibit 4).

Beginning in early 1978, Shansby brought several key executives into the company to strengthen the company’s research, marketing, finance, budgeting, and forecasting.

James Scala, Vice President of Science and Technology, was previously a nutritionist with General Foods. He joined Shaklee in early 1978 to strengthen Shaklee’s research effort, which at the time was primarily a quality control program. With a research budget now totaling \$7 million, clinical testing was begun in an effort to better document product claims.

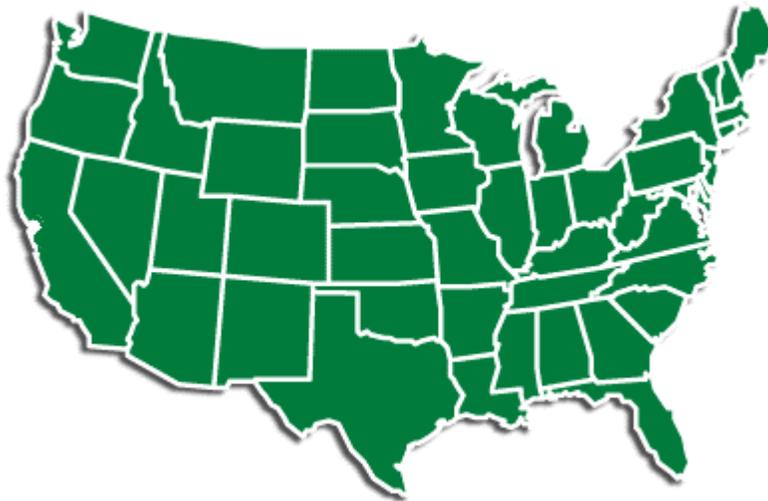
Robert Walter, Vice President of Operations had been with Heinz. He is in charge of operations for manufacturing and distribution and orchestrated the start-up of the Norman plant. He is now examining the five regional distribution centers to economize on shipping costs.

Allan Nagle, Senior Vice President, International, joined Shaklee from Brown & Williamson, and has been instrumental in developing the sales literature and marketing aids for each product.

This was part of a concerted change in the nature of the selling message delivered by Shaklee distributors and leaders. No longer is the message an individualistic, emotional, and often personal product endorsement, but a more unified, scientifically-based message, with a well documented product benefit story.

Barry Roach, Chief Financial Officer, joined the company from McKinsey. He is improving the reporting of financial information from the field.

**Exhibit 4 Headquarters, Manufacturing facilities, and Service Center Locations**



- **Headquarters**  
San Francisco, California

- **Manufacturing Facilities**  
Norman, Oklahoma  
Ft. Worth, Texas

<b>Region</b>	<b>• Field Service Center</b>	<b>Sales Leaders at September 30, 1981</b>	<b>% of 1981 Domestic Sales</b>
Far West	La Palma, California	1,900	21.0%
North Central	Chicago, Illinois	3,200	31.1
South Central	Ft. Worth, Texas	1,800	15.4
Northeast	Dayton, New Jersey	1,900	13.4
Southeast	Atlanta, Georgia	1,400	19.1

Source: Shaklee Corporation 1981 Annual Report

Jack Wilder, Vice President, Sales, had previous experience at Mary Kay Cosmetics. He has restructured the sales organization to consist of five regional managers who interact with sales leaders and coordinators. Additionally, thirty to forty counselors handle service requests from distributors and sales leaders. He installed a computerized phone-ordering system in 1980 to expedite shipments to sales leaders, so that the order turnaround is now only one week. Sales promotion, conventions, and promotional planning are handled by about fifty people under his direction.

### **The Shaklee Customer**

Shaklee Corp. has a unique situation in that its prime customer base consists of its more than 2 million distributors, or salespeople. Generally, these distributors buy for their family and one or two friends, finding that buying direct to eliminate the retail markup is desirable. It is estimated that 90 percent of all Shaklee sales are made in this manner.

According to company research, Shaklee customers, as well as distributors, tend to be highly educated, family-oriented, somewhat religious, and usually suburban. Their alcohol consumption is low and they watch a minimal amount of television. The company has also found that use of Shaklee products is frequently accompanied by a change in life style that includes greater emphasis on proper nutrition and increased exercise.

Current research studies by outside organizations indicate widespread interest in the U.S. in physical fitness and nutrition. For example, a Lou Harris public opinion poll conducted in 1978 revealed that 67 percent of Americans thought they would be healthier if they were more active physically. In that year, 90 million Americans (or 59 percent of those 18 years of age or older) participated in some form of regular exercise. Also, 93 percent of parents wanted their children to develop a deep concern about physical fitness.

As pointed out by a recent stock analysis of Shaklee Corporation, there are several other factors at work in society at this time that should encourage future consumer demand for nutritional products:

- As the U.S. population gets older, the demand for vitamins should increase. Children of the post-war baby boom are now in their early- to mid-thirties, and concerned about preserving their youth and active life styles.
- It is estimated that one of three Americans is overweight. Since weight control is a constant preoccupation for a large segment of the population, products such as Shaklee's Instant Protein® (a "meal replacement" product) should continue to be in great demand.
- It is estimated that one of three meals is consumed away from home. Because of this, and of the fact that snack foods often displace meals, there is concern about a possible lack of nutrition.

- There is a significant segment of the population that believes that vitamins generally promote health. Specifically, vitamins B, C, and E are desired by many who believe they can enhance their resistance to colds, promote their ability to withstand stress, and even aid their sexual function. Additional clinical research on the effectiveness of vitamins, as well as the circulation growth of such nutrition-related periodicals as Prevention, is expected to encourage this health conscious trend.

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**Exhibit 5 Major Vitamin Producers in the United States**

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	<b>Approximate 1980 Vitamin Sales</b>
Shaklee	\$230 million
General Nutrition	140 million
Miles Labs: "One a Day"	35 million
Ledoile: "Stress Tabs" and "Centrum"	30 million
Squibb's: "Theragram"	30 million

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**Competition**

Shaklee's major competitor is General Nutrition, a retailer of vitamins and health foods, with 800 stores across the U.S. In 1980, General Nutrition had total sales of \$242 million, of which approximately \$140 million were vitamins and other nutrients (compared with Shaklee nutrition sales that year of \$220 million). Typically, General Nutrition's strategy has been to discount vitamins, promote those discounts widely, and then improve its gross margin with higher margin impulse items such as health foods or personal care items. Shaklee executives feel that vitamins/food supplement sales of the company have been hurt somewhat by General Nutrition's discount pricing strategy. There are also approximately 5,000 independent health food stores in the U.S. These have not been as threatening to Shaklee since their focus is on personal service rather than price.

Exhibit 5 lists the leading vitamin producers in the U.S. It is expected that future manufacturing competition will come from smaller manufacturers such as Hudson and Richard Vicks; future competition may also come from such proprietary companies as Bristol Myers. Each of these companies have both substantial marketing skills and resources, and product experience in the food supplements or meal replacement market (e.g., Metrecal). Experts do not expect the major ethical drug companies to enter the vitamin market very heavily, since the profit margins on mainstream vitamins are not very high. However, there may be tougher competition for some of the higher-margin food supplement/vitamin lines like Shaklee's Sustained Release Vita-C.

## **Products**

Shaklee sells three different product lines: nutritional products (twenty-four items), household products (nine items), and personal care products (twenty-two items). All Shaklee products are premium-priced. A list of these Shaklee products, along with prices for two of the lines, is shown in Exhibit 6.

In May, 1980, the company decided to reduce the number of household and personal care items to concentrate more heavily on nutritional products. The household line was cut from 13 products to 9, while reducing the number of stock-keeping units from 37 to 14. In personal care, the line was cut from 56 products to 22, while the number of stock-keeping units was reduced from 141 to 28. According to President Shansby, this change occurred to:

refocus the company on nutritional products – the area we feel offers our Sales Leaders the greatest potential for growth. We planned this strategic direction in response to our Sales Leaders’ desire to emphasize nutritional products in their individual businesses. Shaklee nutritional products are both door openers and business builders for our own independent distributors. Moreover, the higher turnover of the line helps Sales Leaders better manage their cash flows, thus further strengthening their businesses. The product line rationalization was, therefore, an important strategic advance for them – and, as a result, for us.

Relative breakdowns of sales for the different product lines over the past four years are shown in Exhibit 7.

Shaklee’s nutritional products are primarily natural, packaged in glass or polystyrene, with all ingredients listed on the bottle. Among consumers, Shaklee has a reputation for product quality because of its use of natural ingredients, and the amount, variety, and balance of nutrients included in its products. Among many nutrition enthusiasts, Shaklee vitamins have a certain mystique because of their ingredient formulations. This has led to some belief that Shaklee products can even cure gout, cancer, diabetes, and many other diseases. With Shaklee’s transition from an entrepreneurial company to a professionally managed company, and due to pressure from the Food & Drug Administration, the company has tried to tone down these claims by salespeople. In fact, company literature directed to its salespeople now warns: “For your own protection and for the integrity of the Shaklee name, NEVER make any claims for a product or recommend any product uses other than those specified in official Shaklee Corporation publications and literature.” In spite of these warnings the mystique remains.

The company introduced eight new products in 1980 and five in 1981. A few of these are Sustained Release Vita-C Vita Tablets Plus selenium, Fiber Wafers, Instant Protein® Convenience Packs, Brown ‘N Oats® bar, and Fruit Bar.

## **Public Relations**

Large corporations are traditionally prone to public relations problems and Shaklee is no exception.

For example, the company recently was accused of using improper sterilization techniques on one of its products. In 1973 the company began treating its alfalfa tablets, which were prone to infection with salmonella bacteria, with ethylene oxide (ETO), a suspected carcinogen. Shaklee continued the treatments until 1977, when the company discontinued the ETO process and substituted an innovative technique that did not require ETO.

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**Exhibit 6 Shaklee Products**

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	<b>Distributor Net Price</b>	
<b>Nutritional Products</b>	Vita-Lea Tablets, 240 or 480 tablets	\$7.75-\$14.40
	Vita-Lea Chewables, 125 or 250 tablets	5.95-11.30
	Liquid-Lea, 8 fluid oz.	5.20
	Instant Protein Drink Mix, regular & cocoa	7.95-15.00
	Instant Protein Convenience Pack, regular & cocoa	8.50
	Sustained Release Vita-C 500 mg. 70 or 180 tablets	3.95-9.40
	Chewable Vita-C 100mg. 100 or 500 tablets	3.60-15.40
	400 LU. Vita-E Plus Selenium Tablets, 100 tablets	10.60
	400 LU. Vita-E Capsules, 100 or 250 tablets	10.90-25.75
	Chewable 100 I.U. Vita-E Plus Selenium Tablets, 100 or 500 tablets	6.30-28.45
	100 I.U. Vita-E Capsules, 180 or 480 capsules	9.70-24.50
	B-Complex, 120 or 320 tablets	6.45-16.50
	Calcium Magnesium, 260 tablets	4.00
	Chewable Vita-Cal, 200 & 425 tablets	5.95-11.90
	Vita-Cal Plus Iron, 100 tablets	4.50
	Zinc, 130 tablets	3.10
	Alfalfa Tabs, 330 or 700 tablets	5.90-11.50
	Bran 'N Oats Bar	0.75
	Pro-Lecin Nibblers, 200 or 390	7.80-14.95
	Fiber Wafers, 120 wafers	5.00
Energy Bar, cocoa & peanut	0.65	
Herb-Lax, 120 tablets	2.95	
Lecithin, 190 capsules	6.80	
Baking Enricher, 28 oz.	12.20	
<b>Personal Care Products</b>	Meadow Blend Soap-Free Cleansing Bar	2.50
	New Concept Organic Dentifrice	1.85
	Desert Wind Deodorant	2.05

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In 1982 an investigative report in The Wall Street journal made this information public, leading critics to charge “cover-up,” since the company never notified anyone that the sterilization procedures involved the use of a suspected cancer-causing chemical.

Shaklee responded, “ETO was a major process used in the mid-70s to sterilize products and is still being used in sterilization of medical devices and certain foods, particularly seasonings and botanicals.” The company also claimed that it should be praised for its pioneering efforts in developing a safer sterilization procedure. Because of the importance of good relations with distributors and customers, Shaklee must successfully resolve similar problems that may occur.

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**Exhibit 6 Shaklee Products (*continued*)**

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	<b>Distributor Net Price</b>
<b>Personal Care Products</b>	
Foot Cream	\$3.85
Deodorant Cream	5.30
Apricot Hand & Body Lotion	3.90
Bath Essence	5.55
Tioga Men's Skin Conditioner	6.45
Deuvis Body Creme	6.45
Proteinized Shampoo	3.10
Arrange Hair Spray	3.50
Rainsilk Shampoo, 8 fluid oz. or 1 gallon	3.10-30.20
Rainsilk Clear Conditioning Rinse, 8 fluid oz. or 1 gallon	3.10-30.20
Ester Droplets Replenishing Oil	7.80
Under-Makeup Moisturizer	4.20
Beauty Masque	4.75
Cream Cleanser	4.05
Lotion Cleanser	3.60
Proteinized Cleanser	3.60
Proteinized Velva Dew Moisturizer	5.55
Fluid Foundation	3.25
Gel Blush	3.25
<b>Household Products</b>	
Basic H. quart, gallon or 5 gallons or 30 gallons	7
Basic L Laundry Concentrate, 10 or 21 lbs.	
Liquid L Laundry Concentrate, gallon	
Softer Than Soft Fabric Conditioner, gallon	
Basic-I Heavy Duty Cleaner, quart or gallon	
Basic-G Germicidal Cleaner	
At-Ease Scouring Cleaner	
Basic-D Automatic Dishwashing Concentrate	
Satin Sheen Dishwashing Liquid	

Source: Salomon Brothers, Company analysis, May 26, 1981

## **Exhibit 7 Shaklee Corporation Breakdown of Product Mix**

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<b>Product Line</b>	<b>(% of sales revenues)</b>			
	<b>1978</b>	<b>1979</b>	<b>1980</b>	<b>1981</b>
Nutritional products	70%	68%	69%	76%
Household products	16%	17%	18%	16%
Personal care products	14%	15%	13%	8%

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Source: Salomon Brothers. Company analysis, May 26, 1981

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## **Exhibit 8 Shaklee Corporation Selling Organization**

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All who join the Shaklee Family begin as Distributors, sponsored by someone who is already a Distributor or Sales Leader. Distributors buy Shaklee products from the Sales Leader in this sponsorship group for resale to retail customers and for personal and family consumption.

Although the Company suggests retail prices for its products, Distributors may sell at any price they wish. There are no territories or franchises; Shaklee Distributors in each country may sell anywhere in their country. In 1981, the Company received an average of over 2,000 Distributor applications every business day.

### **Distributor**

Each new Distributor purchases a New Distributor Kit for \$12.50. Distributors have no minimum purchase requirements, and generally do not maintain significant amounts of inventory, relying on their Assistant Supervisor or Sales Leader to supply them with the products their customers order. Distributors may receive monthly cash bonuses from their Sales Leaders, based on the volume of products they purchase.

### **Assistant Supervisor**

Distributors whose purchase volume reaches \$1,000 per month may be appointed by their Sales Leaders as Assistant Supervisors. Although they do not buy directly from the Company, they often maintain some inventory to supply the Distributors in their groups, and assist their Sales Leader in training and motivating Distributors

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## **Selling Organization**

The backbone of Shaklee Corporation is its selling organization. With an incentive-oriented compensation structure that is one of the most attractive in the direct selling industry, Shaklee's selling organization is critical to the company's success. Exhibit 8 summarizes each level in Shaklee's six-step pyramidal selling organization.

At the bottom of Shaklee's selling organization are the more than two million Shaklee distributors who pay a fee of \$12.50 to purchase a New Distributor Kit, and which entitles them to buy Shaklee products for "distributor net," basically a whole sale price of approximately 25 to 30 percent less than suggested retail. When a distributor has achieved and maintained \$1,000 in monthly sales (i.e., \$735 distributor's net), he or she may be appointed assistant supervisor. This person still buys products from a member of the selling organization, rather than directly from the company.

The first significant jump in the organization comes when the distributor or assistant supervisor has attained a monthly sales volume of \$3,000 (or \$2,200 on distributor net sales). This person is then classified as a "sales leader," a term used for any of the top four levels in the organization. There are presently about 13,000 sales leaders in the organization. Each sales leader is able to purchase products directly from Shaklee, and also receives cash bonuses each month from the Company.

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**Exhibit 8 Shaklee Corporation Selling Organization (continued)**

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<b>Supervisor 11,700*</b>	<b>Coordinator 1,000*</b>	<b>Key Coordinator 150*</b>	<b>Master Coordinator</b>
Distributors who demonstrate leadership abilities, and whose purchase volume reaches \$3,000 per month, may be appointed by the Company as Supervisors, the first rank of Sales Leader. Supervisors buy directly from the Company, receive Shaklee cash bonuses, and may qualify for bonus cars and convention attendance. In addition, by sponsoring and training other Distributors who become Sales Leaders, they can earn special leadership bonuses.	Supervisors who in turn develop and maintain four Supervisors from Distributors in their own Sales Group may be designated as Coordinators, making them eligible for additional conventions, a Coordinator Bonus, and other recognition.	Key Coordinators are Coordinators who have developed, trained and maintained a minimum of nine Sales Leaders from Distributors in their Sales Group, making them eligible for more prestigious bonus cars and recognition from the company.	The highest sales rank in Shaklee is attained by developing a minimum of fifteen Sales Leaders. Master Coordinators receive top-of-the-line bonus cars and additional rewards, and recognition as guest speakers at conventions and as featured success stories in company publications.

Source: Shaklee Corporation 1981 Annual Report.

\* Approximate figures

Sales leaders who maintain monthly purchase volume of \$5,000 (\$3,700 distribution net) for six months qualify for free use of a rental car. At the end of fiscal 1981, over 6,000 sales leaders were driving bonus cars, accounting for one of the largest corporate auto fleets in the country.

There are twelve different car models available.

A beginning sales leader earns more than \$10,000 a year; the typical sales leader, who may have one or more other sales leaders under him or her, earns about \$14,000. To encourage development of new management, a sales leader receives 5 percent of the purchase volume of the sales leaders he or she develops, 2 percent of second-generation sales leaders' business, and 1 percent of third-generation sales leaders' business.

When a supervisor has developed four first-level supervisors, he or she may qualify for promotion to coordinator; there are approximately 1,000 coordinators, each earning approximately \$50,000 annually. At the top of the selling organization are the key coordinators and master coordinators. These individuals earn over \$100,000 annually; a handful are presently making over \$400,000.

The potential for top earnings, accumulated primarily from bonuses or commissions, is a powerful motivating factor for people rising in the Shaklee selling organization. Additional motivational devices include the international and regional conferences and conventions, which were attended by over 60,000 people last year (at a cost to the company of over \$10 million). Shaklee is convinced that company success depends on this selling organization. As stated in the company's 1981 Annual Report:

The distributors and Sales Leaders who are the Shaklee family share a common bond of interest in nutrition and health. It is an appreciation of the importance of high-quality nutritional products as part of an all-around self-improvement program that motivates a person to become a Shaklee distributor.

Because members of the Shaklee sales force are consumers first, it is easy for them to share their enthusiasm for the products they trust. Shaklee distributors are not just out plugging some company's line of merchandise – they are telling people about products that have a place in their homes and in their lives. They share their personal commitment to health, and their appreciation for good nutrition. This sharing of products and information with relatives, friends and neighbors leads many distributors to develop their own individual business enterprises by participating in the Shaklee sales plan.

Of the hundreds of thousands of Shaklee distributors, 12,900 have been appointed by the Company as Sales Leaders. These are individuals who have displayed leadership abilities and whose businesses have reached such a size that they are qualified to buy their products directly from the Company. Sales Leaders build their businesses by making Shaklee products available to a wider audience and by encouraging other consumers to become distributors. As enthusiasm about the products and the business opportunity spreads to more and more people, additional consumers become distributors and the sponsoring Sales Leaders' business sales volume expands.

The Shaklee Sales Plan is truly democratic, allowing an individual to go as far as he or she wishes and is able. The Plan provides business-building incentives and benefits-cash bonuses, bonus cars, travel to conventions, and participation in insurance programs.

But every successful Sales Leader from Supervisor to Master Coordinator must take the same steps. And each begins a Shaklee business the same way – as a consumer and distributor.

As Sales Leaders build their businesses, our business will grow. We depend on the motivation, direction and hard work of our sales force to maintain our position as one of the world's leading nutritional products companies. While corporate staff and resources, R&D, and manufacturing and distribution efficiencies are important for our business, ultimately it is the individual in the field – the independent entrepreneur who is building a business – that is the foundation of the Shaklee Corporation.

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### **Exhibit 9 Four Direct Selling Companies – A Comparison of U.S. Operations**

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	<b>Avon</b>	<b>Tupperware</b>	<b>Mary Kay</b>	<b>Shaklee</b>
<b>Sales</b>				
Retail (millions)	\$1950.0	\$800	\$303.0	\$509
Factory (millions)	\$1,170.0	\$360	\$151.5	\$356
Factory as percent of retail	60%	45%	50%	70%
<b>Sales force</b>				
Number of salespeople	425,000 representatives	85,000 dealers	105,000 consultants	2 million distributors who are primarily consumers
Retail sales per salesperson	\$4,600	\$9,400	\$2,900	\$255
Factory sales per salesperson	2,900	\$4,200	1,450	\$178
Earnings per salesperson	\$1,800	\$3,300	\$1,450	\$77 in product savings
Commission	40% of retail sales	35% of retail	50% of retail	30% of retail

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Source: Salomon Brothers. Company analysis, May 26, 1981

A comparison of the Shaklee selling organization with that of three other leading direct selling companies is given in Exhibits 9 and 10.

### **The Future**

Shaklee's long-term objective is to be "the world's leading nutritional products company." To accomplish this, the company wants to increase its international thrust, as Shaklee's long-term objective is to be "the world's leading nutritional products company." To accomplish this, the company wants to increase its international thrust, as well as continue to improve its domestic marketing efforts. Internationally, the company has been very cautious since its disastrous international results of the mid 1970s. It appears that some countries such as Japan and Canada are enthusiastic about nutritional products.

However, in countries where confectionery consumption is high (such as England), concern about vitamins is lower. Less developed countries, such as Brazil, may be promising markets in the future since other direct-sale companies (such as Avon and Mary Kay) have been very successful here.

The primary concern at the moment for Shaklee executives is to improve the company's marketing efforts in the United States. They are particularly aware of the fact that growth for any direct selling company is largely a function of growth in the sales force – both the number of salespersons as well as the revenue per salesperson. It is this area of company operations that Shaklee executives feel can be most dramatically improved in the near future.

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### **Exhibit 10 Comparison of Sales Force Management**

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	<b>Avon</b>	<b>Tupperware</b>	<b>Mary Kay</b>	<b>Shaklee</b>
<b>First level</b>				
Number of managers	2,800 district managers	8,000 managers	2,100 directors	10,100
Salespeople per manager	150	11	50	198
Retail sales per manager	\$695,000	\$100,000	\$144,000	\$50,400
Compensation	\$15,000 salary + 3% of sales increase + leased car	3%-5% of retail sales of \$4,000 rental car worth \$7,000 every 2 years	12% of retail sales or \$17,300 + avg. bonus of 3% of sales (\$4,300) rental car worth \$8,000 every 2 years	22% of purchases volume + 5% of sales leaders he develops + 2% of second generation sales + 1% of third generation + rental car program \$14,000 average
<b>Second level</b>				
Number of managers	159 division managers	365 distributors	21 national sales managers	1,000 coordinators with five sales leaders
Retail sales per manager	\$12.2 million	\$2.2 million	\$14.4 million	\$509,000
Compensation	\$35,000	\$80,000-\$100,000 + net or 20% of retail sales less expenses	\$14.4 million 12%-15% of 1 <sup>st</sup> generation retail sales. Smaller percent of 2 <sup>nd</sup> generation retail sales. \$14,000 avg.	\$50,000
Duties	Supervise district managers	Purchase inventory and ship product to unit managers		
<b>Third level</b>				
Number of managers	7 national sales managers	12 regional vice president		200 coordinators
Compensation	\$50,000 salary	\$40,000-\$60,000 salary-incentive		\$100,000 plus

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Source: Salomon Brothers. Company analysis, May 26, 1981