

NUTRITION BUSINESS JOURNAL

Disruption equation

The biggest supplement innovation comes from convenience and branding, not ingredients

By Dan Fost

They say many of the best business plans were written on a napkin. But how many of those plans got their start on a napkin wadded up in a pocket, filled with vitamins?

For Arad Rostampour, the moment he knew he was onto something came when he was pitching his idea for a tech spin on a vitamin business to a potential investor in San Francisco, and the man reached into his pocket, unfurled his napkin, and revealed his daily doses.

It was not uncommon. Rostampour had already seen many other friends with loosely packed vitamins, vitamins they forgot to take, bottles that ran out at different times.

It was, in the parlance of Rostampour's Silicon Valley business milieu, an industry ripe for disruption.

"This is what got me started," he says.

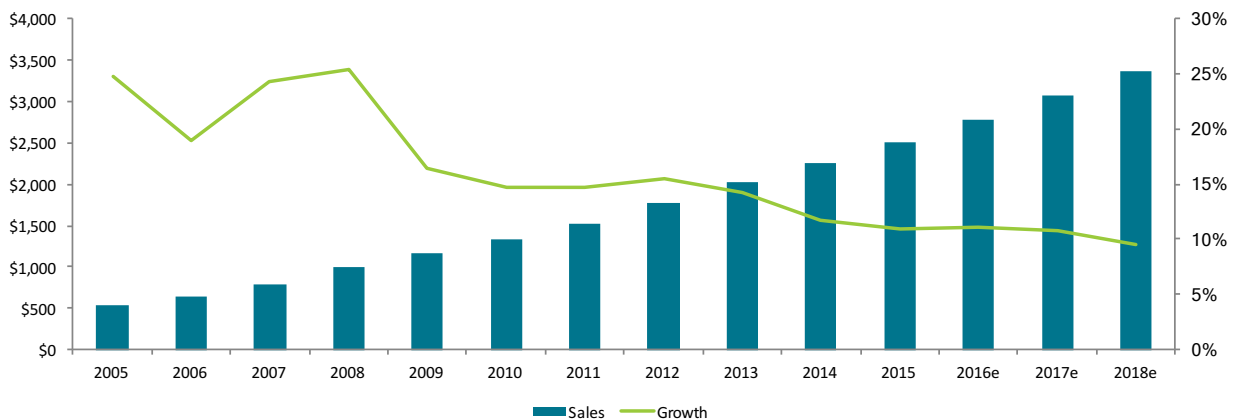
Rostampour founded **Zenamins**, which has come up with a new way to sell vitamins. He's not the only one. Craig Elbert, who learned about disrupting business

NBJ Takeaways

- » Innovation in delivery can be more important than innovation in product
- » Disruption works best in industries where consumers are frustrated with current options
- » Convenience and customization are the disruption frontier for supplements

when he helped grow Bonobos from a 10-person startup to a 300-person online clothing emporium, has launched **Care/of**,

U.S. INTERNET SUPPLEMENT SALES AND GROWTH, 2005-2018E



Source: Nutrition Business Journal (\$mil., consumer sales)

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"Disruption" is about ideas and execution, but the right the user experience, and the relationship that comes from that, may be the most important factor. Companies new to the supplement space bring new thinking the industry needs.

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Network marketing has been dominated by women for decades, and whether that can change depends on dynamics that go far beyond product. Is the "gig economy" enough to bring more men into the MLM industry?

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Online and international: It's hard to picture a map of cyberspace, but it's clear that the e-commerce world has borders. The challenge is how those borders shift, and whether supplement makers can be ready when they do.

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Can online feel exclusive? Is message control more important than exposure on a mega-site like Amazon or a shelf at Target? Some companies are choosing to go it alone with their supplement lines and keep sales exclusive to their sites.

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Social media has turned isolated bloggers and Instagram stars into industry-connected titans in the marketing world. Finding the right influencers means creating partnerships.

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The direct-to-consumer world is a constant storm of change, innovation and error, but these companies have found a way to make their name and their niche stand out from the static.

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LETTER FROM NBJ: THE MLM MONOLOGUE

Companies in the direct sales channel can get a bum rap.

Unfortunately, there are plenty of bums in the business who deserve it and on a November episode of Last Week with John Oliver they got 31 minutes of bombs aimed at targets some of those bums painted on their own backs.

Not every charge thrown at the MLMs is true. If **Herbalife** were the pyramid scheme Oliver and detractors claim, it's hard to imagine the company wouldn't have collapsed long ago. It hit 37 this year. Other legacy direct sales companies have proven the same longevity. Amway's roots go back to the 1940s. Avon? 1886.

Oliver does take on Herbalife, but he has to work a little harder there. Hedge fund publicity hound Bill Ackman found that out in his \$1 billion short-sale bet against the global company. He called it a "pyramid scheme" and used political connections to get federal authorities to investigate the company. But the company still stands. The stock may be bouncing through some turbulence at the moment, but *Forbes* estimated Ackman was down \$500 million on his bet in July when Herbalife agreed to a \$200 million Federal Trade Commission settlement. The company saw its stock climb 10 percent in one day after the announcement, more than making up the settlement cost.

But there was no shortage of flash-in-the-pan companies for Oliver to choose from, complete with ridiculous get-rich-quick pitches trumpeted in strobe lights and laser light shows. They make life easy for comedians and critics both.

The question is "Why?"

If ever there was a time for direct selling to work, it's now. In 2017, with Uber drivers outnumbering cabbies in New York City and the number of Airbnb rooms dwarfing the offerings of the largest hotel empires on the globe, there has to be a way to make direct selling work for the company, the distributors and the end customers. That way probably includes both convenience and connection, both qualities that could not just sell supplements but help those supplements fulfill their promise of health. Convenience and connection? Seems possible.

We don't know what model best succeeds in the gig economy, but perhaps adding service to the subscription will work. We've seen health coaches in the MLM ranks but are they fully trained? Or fully transparent?

It might not take much to add a mission to the model and tweak the direct selling concept to meet expectations and abilities of the Uber age.

Because what has Oliver said about Uber? He said it could find you faster than 911.



Rick Polito
NBJ Editor in Chief

COVER STORY CONTINUED

a company looking to bring the same image branding concepts to vitamin sales. Constantin Bisanz, an Austrian tech entrepreneur, found an enlightened path to health through diet, supplements and meditation, and now his launched-online startup, **Aloha**, is selling healthy products in **Target** and other mass-market retailers.

These and other companies are following a path plowed by companies like Uber, Airbnb and Warby Parker: Look for an ossified industry (in those cases, taxis, hotels and eyeglasses), and figure out a way to use technology to provide a similar service that's easy to use and, in the words of Care/Of's Elbert, "delightful."

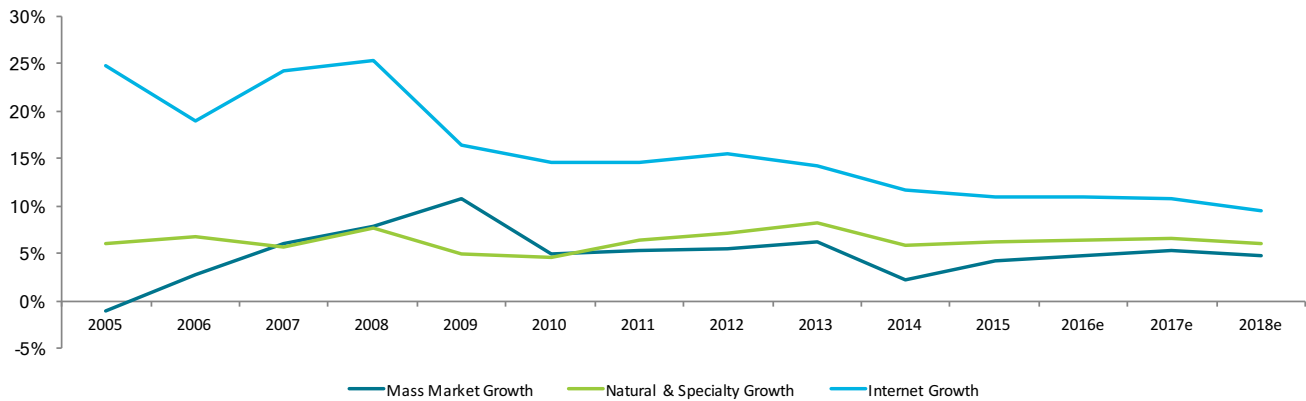
Harvard Business School professor Clayton Christensen coined the term "disruptive innovation" in 1995; on his website, he says it "describes a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors." The term has especially been embraced in the tech industry, which has lowered barriers to entry and made it possible for nimble startups to challenge big companies and entire industries.

The nutritional supplement and natural products industry is particularly fragmented, from shopping mall retailers like **GNC** to sales at conventional big boxes and grocers from Walmart on down, with online retailers that range from specialists to Amazon.com, and from mom-and-pop natural stores to **Whole Foods Market** and other national chains. In addition, consumers are often confused about regulation, product sourcing and a shifting landscape of what anyone should take at any given time.

Meanwhile, new technologies such as DNA testing from **23andme** are putting people in charge of their health information. They're taking a look at their lab tests and deciding what they should take.

Entrepreneurs look at the situation, as well as some enticing statistics—estimates that more than 70 percent of Americans take vitamins or supplements (according to the **Council for Responsible Nutrition's** latest polling), and the market has topped

U.S. SUPPLEMENT GROWTH BY RETAIL AND INTERNET CHANNEL, 2005-2018E



Source: Nutrition Business Journal (consumer sales)

\$41 billion by *NBJ* estimates—and they see a field ripe for disruption.

It’s already happening. In December, **GNC** said it needed to leave its “old, broken model behind,” shuttered all of its 4,464 U.S. locations for a day, and relaunched with new pricing and point of sale systems, as well as a new mobile app.

“We are encouraged by the company’s attempt to stave declines in the business, but see the relaunch as risky,” Goldman, Sachs and Co. analysts Stephen Tanal and Alison Levens wrote in a report. “We believe competitive pressure from the mass channel and online retailers remains intense, and could prove insurmountable if GNC is unable to bridge its shortcomings in convenience and price, or sufficiently differentiate its in-store experience or product offering.”

That’s a challenge several upstarts are eager to exploit.

The direct-to-consumer space isn’t just the best place to lay down that challenge. It might be the only place.

Taking Care/of business

Craig Elbert had abandoned his career as an investment banker by the time he took a job as one of the first 10 employees at a startup in May 2009. The company was selling men’s pants online, and was named for a little-known great ape: Bonobos.

The founders had come out of Stanford

Business School, and brought a decidedly high-tech, West Coast spin to their company. The concept: Men hated their pants. They hated the way they fit, and they hated having to shop for them. Bonobos, led by co-founder Andy Dunn, sought to change the entire process, and use the growth of the consumer internet to form a hybrid, a digital company delivering a physical product uncommon to the cyber shopping experience.

Elbert started as director of finance and analytics, and ultimately became vice president of marketing. “The big question was, how do we use technology and the internet to create a delightful experience in a stagnant category?” Elbert says. The product wasn’t particularly sexy; Elbert describes it as “boring khakis.”

“The company was built on how do you have a better product and experience?” he says. “It’s both. We were using technology and human empathy to deliver that.” Because of the rise of social media, Bonobos didn’t even have to spend a ton on advertising. People loved the product and spread the word.

Elbert is bringing that experience and perspective to the vitamin business with his start-up, Care/Of.

“For me, it really started with the experience of trying to shop for vitamins and supplements myself,” he says. “I was vitamin D-deficient. My wife was pregnant

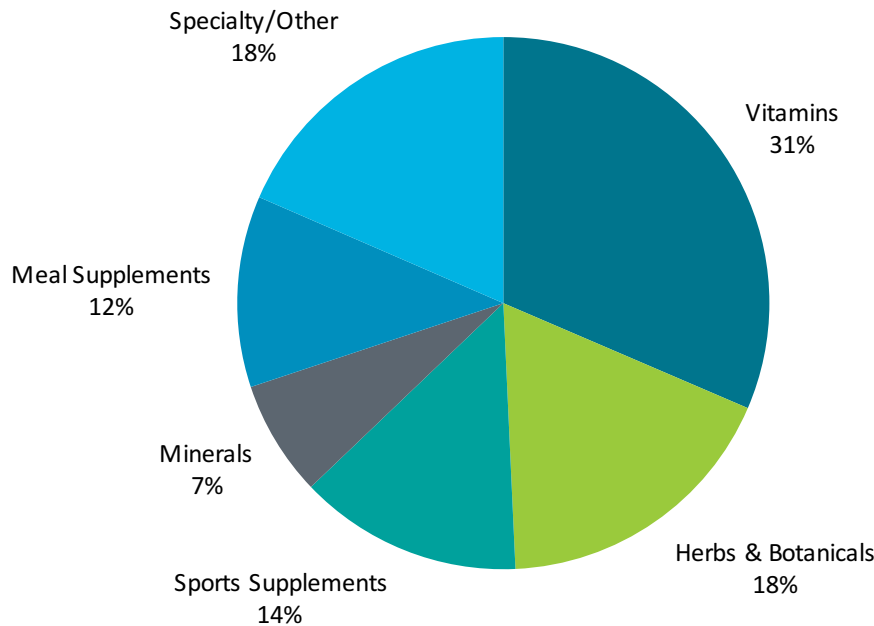
and asked me to pick up some prenatal. I went into a store full of vitamins. As a consumer, I felt overwhelmed. What’s the difference between everything that’s in here? Are there other things I should be taking? It was not that easy to sort that out.”

Care/Of’s technology presents customers with a five-minute questionnaire that assesses their goals, health issues, and details about their diets. It also asks whether the customer is willing to take a risk, or only wants recommendations with strong science behind them. It then recommends a regimen of vitamins, with clearly written explanations of the science behind each one. If the customer accepts, Care/Of will mail a packet each month, for a fee, with each day’s dose packed together. With membership, the monthly mailings will continue, so a customer shouldn’t have to think about buying vitamins ever again.

Care/Of avoids the legal challenges common to online supplement outlets by delivering a caveat with its survey-driven recommendations. “We emphasize that people should talk to their doctors first,” Elbert says. “We are not a doctor or a substitute for their doctor. Ultimately, we try to make sense of the research that’s out there, and leave the decision-making to the consumer.”

What Care/Of is trying to replace is that feeling Elbert had when he walked into the vitamin store. Rather than just

U.S. SUPPLEMENT SALES BY PRODUCT, 2015



Source: Nutrition Business Journal (consumer sales)

picking something off a shelf, or quizzing a sales clerk who may or may not know what's best for any given person, "we want to make that a bit easier by serving up relevant information."

Care/of, based in New York, raised \$3 million from Juxtapose, a New York-based investment fund. Bonobos' Dunn is also an investor.

The other lesson Elbert brings from Bonobos is to make sure the product looks good—what he repeatedly describes as a "delightful" experience. "It's important because you often have a world where customer service has been a race to the bottom in terms of how you make something the cheapest. That usually means cutting off customer service and the customer experience."

By making it fun and beautiful, he hopes to add value to the experience.

Elbert chose the Care/Of name, even with its awkward slash, because of the healthy implications of caring, and for one other reason: As most consumers interact with technology via their mobile phones,

Care/Of reaches back to the era of snail mail for c/o, a natural symbol for its app.

Elbert, 36, started his business career in a record shop. And after he left investment banking, he worked for Warner Music during the era when Napster upended the music business. So he has seen disruption from both sides.

"I've seen how categories can be disrupted and how the internet can be really powerful," he says. At Warner Music, "I could see the power of disruption and the challenge organizations face. There are so many hurdles, and incumbents have to move quickly. But they're full of cost structures. Here, we're building something from scratch, which gives us certain advantages."

Going to the Y for Zen

Arad Rostampour's story sounds like a Silicon Valley classic: He grew up in Colorado, earned a bachelor's degree at Purdue University in computer science and electrical engineering, and went on to earn two more degrees, a master's in electrical engineering with a focus on computers at Stanford and

an MBA from Wharton. He became an executive at Valley giant Hewlett-Packard before striking out on his own, starting up a company, SocialShield, that helped parents monitor their children's use of social media. That company had raised a reported \$10 million before it was acquired by a large German tech security company in 2012.

Time for the next tech company, right?

Instead, Rostampour took a slot in the Valley's fabled incubator, Y Combinator, to start ... a vitamin company?

Not exactly. "Just like Dollar Shave Club is a tech company shipping razors, we're a tech company shipping vitamins," Rostampour says.

Rostampour's San Francisco-based startup, Zenamins, works much the same way as Care/Of. Consumers go to the company's site, pick their vitamins, and sign up for a monthly delivery. They'll get a blister pack with each day's doses enclosed and labeled. The days are perforated, so if you're traveling, you only need to bring the days you'll be on the road. Zenamins will also split vitamins into morning and afternoon

packs. These are all smallish tweaks on the blister packs formula, but the tech-style convenience branding makes it stand out.

Rostampour has taken funding, although he won't disclose how much or from whom. He is working on some large partnerships, including with Pfizer, which accepted Zenamins into an innovation program run by the giant corporation to assist startups on new technological approaches to health.

Some of his bigger tech ambitions didn't pan out, and some are still in the works. At one point, he hoped to see what nutrients people needed, and then put it all into one pill. While many people prefer the classic one-a-day multivitamin, Zenamins couldn't fit so many different doses into one pill, and it turns out consumers prefer the individual vitamins. Customers know they're getting calcium when they see a separate pill for it.

In the future, Zenamins plans to work with doctors and nutritionists, so they can fill out patients' doses on the site. "We're trying to make it convenient," he says. "A nutritionist may write some recommendations on a scrap of paper, and the patient may or may not go to Walgreens and buy the vitamins, and then may or may not take them if they do buy them. We want to make it easy."

The Aloha way

It's no longer surprising to see a disruptive nutrition model come out of the direct-to-consumer world. But what if the disruption came from the other direction?

Constantin Bisanz is a serial entrepreneur for whom starting and selling businesses had almost become a game. In 2001, he started TruckScout24, an online marketplace which he sold to Deutsche Telekom. In 2007, he left and started Brands4Friends, an online shopping club. His LinkedIn profile describes how it "grew to \$100 million in revenue in less than three years and quickly became the No.

1 shopping club in Germany, the U.K. and Japan." He sold it to eBay for \$220 million.

Still young and now fabulously wealthy, Bisanz took a break before starting his next venture. And that's when he had his epiphany.

"I worked like crazy all my life," says Bisanz, now 43. "I always had an interest to be healthy but I found it very difficult." He would indulge in office snacks, junk food—the stan-

"I was angry at the whole industry. I couldn't find a brand I could completely trust."

Constantin Bisanz, Aloha

dard regimen of an always-on traveling businessman.

"When I left, I had time to dive further in," he says. "I definitely did not feel healthy."

He pursued health as relentlessly as he once chased business success. "I said, 'I want to learn as much as possible from different cultures, ancient philosophy, India, China,'" he says. "I surrounded myself with experts."

An avid amateur athlete—Bisanz claims to have broken a world record by kite-surfing the Bering Strait from Alaska to Russia—he dove into meditation, yoga, healthy food, and holistic living. That's when he got the idea for his latest business.

"I spent a lot of time in India studying Ayurvedic philosophy and healthy living," he says. "It was eye opening, how important food is, and how crappy most of the food is that humans eat."

Seeing how much of modern processed foods contains sugar, artificial sweeteners and artificial fillers, and talking to doctors and others, "the more I learned from these experts, it was almost like shock therapy," Bisanz says. "I was angry at the whole industry. I couldn't find a brand I could completely trust."

So he created one: Aloha. He began by making protein powders and bars, launching online in January 2014, and very quickly drawing interest from mass-market retailers. One of his first customers was Target.

"Usually they start with a test in 200 stores, but they were really bullish and asked us to roll out in all of them." Target has nearly 1,800 stores in North America.

Bisanz says the big differentiator with other brands is that everything Aloha makes is organic, vegetarian and naturally sourced. "Internally, we are very strict," Bisanz says.

For the hordes of hopeful entrepreneurs in natural and organic nutrition that may not sound like much of a differentiator. Perhaps, the disruption factor for Aloha is simply extremely solid business practices mated to the mission.

Because of his success in building lifestyle brands in the digital world, he believes he can do the same in nutrition. He's built a team with industry veterans. Larry Waldman, Aloha's president, chief financial officer and chief operating officer, once ran the supply chain and operations for Annie's, the natural foods company that sold to General Mills in 2014 for \$820 million. Molly Breiner, the head of marketing, held a similar post at Happy Family Brands, and was a brand manager at consumer giant Unilever.

Or maybe the disruption factor was the confidence from the online success that let Bisanz leap straight into big, perhaps unexpected markets. "People have access to healthy foods on the coasts, in New York or L.A.," Bisanz says. "Middle America has issues. They don't know what healthy means. That's what we're going for. We want to not only build a big business but also help people. We want to make this aspirational."

His plans for growth include branching out into an entire lifestyle brand. "We believe there's a balance between eating healthy food, but also moving, being active in sports and mindfulness," he says. "We're going to teach people how to meditate and take care of their personal development."

Success of that variety, happening online or on shelves, may be the most ambitious disruption the nutrition world has ever seen. 🌱

Women’s work?

Women dominate in direct selling, but men could be catching up

By Lisa Marshall

Is the direct-selling industry ready for a testosterone injection?

It’s a question corporate leaders and industry consultants are mulling as they strive to expand the relatively flat \$36 billion industry beyond its female-centric home-party roots. To this day, the industry remains largely a woman’s world, with men making up less than a quarter of the 20 million people involved in the United States, according to the **Direct Selling Association**.

But that number has grown significantly from a decade ago, when just 12 percent of direct sellers were male. As cultural norms shift, and men gain a greater interest in both work-at-home jobs and health and wellness products, the time is ripe for direct sellers to engage more men as both distributors and consumers, says Bernie Landes, president and founder of California-based **Nutritional Products Consulting Group**.

“Millennials and Gen-Xers have a very different mindset than their fathers did,” Landes says, noting that they are more interested in careers that “further the general health and well-being of humanity while also generating income.” They’re also hav-

ing a hard time finding traditional jobs, he notes. “The last eight years have been challenging for young men coming out of school. They are becoming more networking savvy and opening their eyes to things that may have traditionally been viewed as in the realm of women.”

As long-term, pension-providing jobs go by the wayside, some argue that direct-selling is just what penny-pinching Baby Boomers need, too. “I believe the entire (direct-selling) industry is poised for explosive growth and can be one of the most significant solutions to America’s current retirement savings crisis,” gushed Robert Laura, a *Forbes* contributor in a recent opinion piece.

But would guys be any good at direct-selling? That’s a matter of some debate.

A woman’s touch

Direct selling initially got its start with men, who in the mid-1800s went door to door selling books, vacuums, and other household goods. In 1886, one of those salesmen, David H. McConnell, began to offer perfume samples to his female customers as an extra perk.

NBJ Takeaways

- » More men may consider network marketing due to economic conditions
- » The “gig economy” makes MLM side work attractive to more men
- » “Co-ed” operations are growing
- » A male-oriented product offering does not guarantee success for a male-focused sales force model

“Since women had a passion for his products and loved networking with other women, McConnell was inspired to recruit them as sales representatives,” explains the website of the company he ultimately created—Avon.

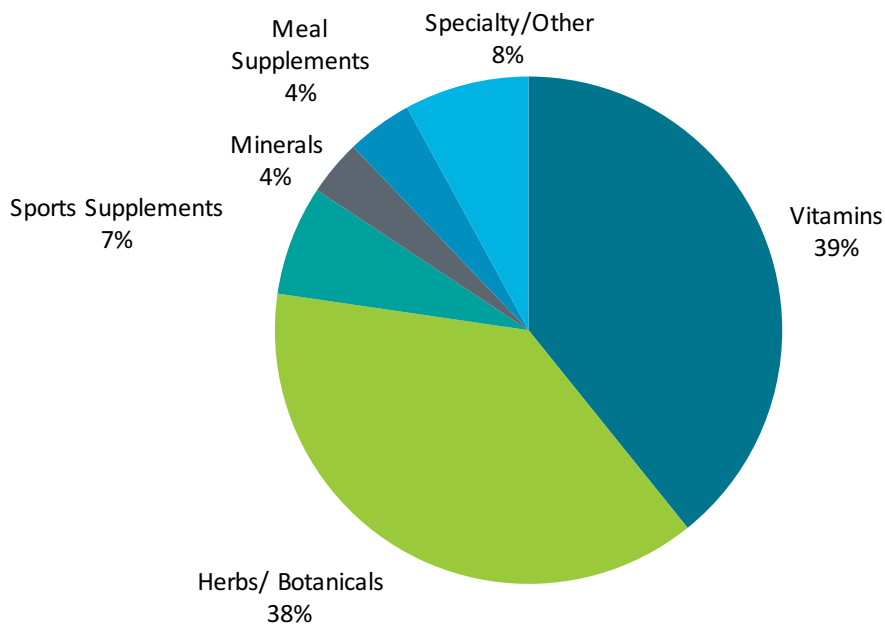
Women were also better suited to entertain at home, while their husbands were at work. And they were looking for an additional source of income that they could call their own. The home-party movement was born, with everyone from Tupperware to Mary Kay

US Supplement MLM/Network Marketing Sales by Product Category, 2016e-2020e

	2016e	2017e	2018e	2019e	2020e
Vitamins	2,063	2,162	2,255	2,359	2,474
Herbs & Botanicals	1,697	1,809	1,918	2,037	2,155
Sports Supplements	504	543	582	627	676
Minerals	348	361	373	386	401
Meal Replacement	1,574	1,667	1,740	1,829	1,943
Specialty/Other	351	378	400	428	462
Total	6,537	6,921	7,269	7,666	8,110

The US Supplement MLM/Network Marketing channel is projected to gain \$1.6B of incremental sales by 2020. Seventy-eight percent of these incremental sales are forecasted to come from the Herbs & Botanicals (29%), Vitamin (26%), and Meal Replacement (23%) categories. The remaining 22% of incremental sales are expected to be driven by Sports Supplements (11%), Specialty/Other (7%), and Minerals (3%) categories.

INTERNET SALES BY SUPPLEMENT TYPE, 2016E



Source: Nutrition Business Journal (consumer sales)

following suit. More than 150 years later, 78 percent of direct sellers are still women.

“Women, by nature, just socialize and cooperate better than men do and those skills are inherent to success in direct selling,” says Loren Israelsen, president of the **United Natural Products Alliance**.

For a long time the products—kitchen knives, containers, perfume, and makeup—were also geared toward women, in their historic role as homemakers and family caretakers. And direct selling still often relies heavily on sampling the product, whether it’s an essential oil or a skincare product that may come off as more feminine to some men.

“There is a physical element to direct selling. It requires closeness,” says Israelsen, pointing to the example of a salesperson dabbing an essential oil on a potential customer. “Some men find it hard to imagine doing that.” Men can also have a different, more direct or aggressive style of salesmanship that could be off-putting to women in certain settings, he notes. Asked to think of

a multi-level marketing company by men for men, he couldn’t think of one. “Honestly, I question whether men have the right aptitude for it.”

Even in cases when the product itself is far from feminine, male-targeted multi-level marketing companies have been short lived.

One company, Man Cave, made headlines nationwide when it launched in 2010 with a platform of home parties for men, dubbed “Meatings” where guys sold grilling accessories and craft meats to guys.

“My uncle is a big entertainer, and one day he was showing off everything he had learned about smoking ribs with different kinds of wood chips and various rubs. I thought, ‘What if we taught other guys to grill like this?’,” recalls company founder Nick Beste, who launched the company when he was a junior in college. Customers liked the meat, but could live without the networking party. “They would call on a Thursday afternoon and say, ‘I’m having a barbeque tonight, can I stop by to get some of your meat?’” In 2013, the company

scrapped the multi-level marketing model for a traditional retail model. It has since grown rapidly, to 1,950 stores nationwide.

“Do I think the direct selling model could work with men in the future? It’s hard to say—especially when you consider the one thing that made us a huge success in that arena (great meat products) also propelled us out of it and into the retail world.”

The rise of the co-ed MLM

While male-dominated multi-level marketing companies have yet to become a trend (and may not), many large, long-standing MLMs say they are absolutely seeing more men enter the business.

“We certainly see the gap narrowing,” says Jim Ayres, managing director for **Amway North America**, noting that traditional economic and career models are evolving rapidly and a “gig economy” is taking hold.

Already, 48 percent of single applicant Amway businesses in North America are male-owned businesses, while 30 percent of all Amway businesses in North America

have at least one man in their business.

According to Amway’s Global Entrepreneurship Report, men actually exhibit “a greater propensity for enthusiasm toward entrepreneurship” than women, with 60 percent of men saying that are likely to start their own business while 43 percent of women share that view.

One direct-selling company, AdvoCare (short for Advocates Who Care), has aggressively targeted men in its marketing in recent years, sponsoring NASCAR drivers and lacrosse teams and enlisting a lengthy roster of celebrity endorsers who use and sell the products themselves. Among them are Major League Baseball pitcher Doug Fister, CrossFit champion Rich Froning, and New Orleans Saints Quarterback Drew Brees. “I’ve seen product results, and so have thousands of people who trust AdvoCare,” Brees says in an AdvoCare ad. “And the financial benefits can be just as rewarding for those who want more and decide to build their own AdvoCare business.”

AdvoCare was not able to provide data on its male to female distributor ratio by press time. But according to an ESPN Magazine profile, the recent focus on men appears to be working, helping the company generate \$719 million in net revenue in

2015 and growing its sales force to 640,000, up from 97,000 in 2010.

The article was highly critical of AdvoCare, for billing their company as a “pathway to financial freedom” and allegedly misleading men into thinking they could make more than they actually could as a distributor. “In reality, only a tiny fraction of AdvoCare members earn anything close to a modest income, even as they’re pressured by higher-ranking distributors to keep buying inventory,” the article warned, noting that only 23,678 of its distributors earned more than \$1,000 and only 2,800 earned more than \$10,000. Its bottom line message to its largely male readership: If you’re considering direct selling, don’t quit your day job.

In a statement, AdvoCare acknowledged that: “AdvoCare’s Income Disclosure Statement and robust training makes it clear that for most, the income opportunity works best as a part-time business.”

The strength of the power couple

Kirk Jowers, vice president of corporate relations and European markets for essential oils giant dōTERRA, makes no

pretense that direct-selling can take the place of a full-time job. He points out that 82 percent of his distributors will “never see a check.” They join up because they like the product and enjoy the discounts. Only 18 percent are “active builders” looking to make an income.

He says that while only about 12 percent of his distributors are men, he too is seeing a slight uptick in interest among them, particularly when it comes to sports-performance products like its blockbuster Deep Blue.

He and Israelsen note that in some areas of the world, due to cultural and economic differences, men are far more inclined to engage in direct selling. (In India, men account for 42 percent of direct sellers, according to the India-based Business Standard).

What they and others in the business do expect to see more of going forward are husband-and-wife teams joining direct-selling companies, where they combine their different skillsets and sales styles into one power couple.

“A lot of times we see that one person is really good at presenting the product and the other is good at follow-through,” says Jowers. “I would say that 80 percent of our top leaders are couples.”

U.S. MLM/NETWORK MARKETING SUPPLEMENT SALES AND GROWTH, 2005-2018E



Source: Nutrition Business Journal (\$mil., consumer sales)

From Amazon to Alibaba

Supplement sales move online globally as the world gets both bigger and smaller

By Marc Brush

As the world goes digital, a select few companies seem to harvest the majority of the spoils. There's Facebook, maybe Twitter, and a gallery of afterthoughts in social media. In Asia, there's Alibaba for e-commerce. Inside the U.S., it's increasingly all about Amazon, and dietary supplements are proving subject to that particular mega presence more than most industries.

Slice Intelligence, using data mined off a popular shopping app from its partner Slice Technologies, shows the extent of the damage. From a September 2016 article titled "Online vitamin sales are growing faster than the rest of e-commerce," we learn the following: 77% of supplement sales now move through Amazon for the 4 million shoppers using the Slice app with millennial women leading the charge. More

niche players' online struggle for relevance outside Amazon's mighty orbit, with **Vita-cost** the only name to command any meaningful share. According to Slice research, GNC—perhaps too closely associated with its brick-and-mortar storefronts—barely cracks the top five for that remaining 23% of sales.

Even as Amazon casts this shadow over the industry, companies are moving more and more product online. Says Slice: "[Our data] shows the vitamin and supplement category is growing fast, with sales having increased by 40% in the last year. Online vitamin and supplement purchases are increasing at such a quick rate that the category is moving 12% faster than the e-commerce average itself."

A double-edged sword, then. Amazon drives sales, but amasses more and more

NBJ Takeaways

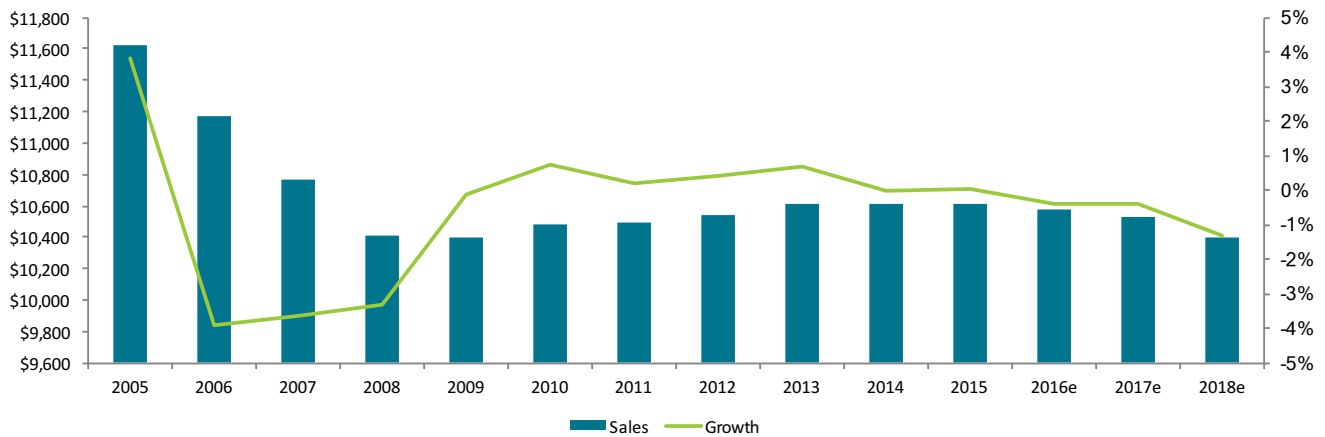
- » The United Kingdom leaving the European Union has implications for the supplement industry but the effect on online sales is still unclear
- » EU rules on "distance selling" are unevenly enforced and create uncertainty that complicates sales strategy
- » China trade remains tumultuous as Blackmore's spike and plunge stock cycle has shown
- » Online sales can vary not just border by border but category by category

EASTERN EUROPE SUPPLEMENT SALES AND GROWTH, 2005-2018E



Source: Nutrition Business Journal (\$mil., consumer sales)

JAPAN SUPPLEMENT SALES AND GROWTH, 2005-2018E



Source: Nutrition Business Journal (\$mil., consumer sales)

power as the conduit for those sales, and creates more and more reputational risk for the industry as an easy home for bad actors. Given this state of affairs in U.S. e-commerce, *NBJ* wondered what online sales of supplements look like across the globe. A few key insights follow.

Bracing for Brexit

As the 28 nations that make up the European Union bid adieu to the United Kingdom, how might supplements fare through the transition? John Venardos of Venardos & Associates LLC, a consultancy with deep expertise in global markets informed by his time at both **Herbalife** and **Bodybuilding.com**, sees both uncertainty and opportunity. “Historically, England has been fairly liberal in terms of commercializing and regulating food supplements. Now with Brexit, there are many new considerations. Does the U.K. need to create new food safety or standards agencies? How do they staff them? Do they change laws around notification and registration? Do they still remain harmonized with the

EU on upper limits, on permitted vitamins and minerals and botanical sourcing? Or do they create it all anew?”

In a time so receptive to total resets and so sympathetic to protectionist impulses, moments like Brexit bring established norms back into question. Think of sports nutrition and the way EU ban lists might clash with local ban lists. Experts point to the leading trade associations involved here, including **CRN UK**, **HFMA** (Health Food Manufacturers’ Association), **Food Supplements Europe**, and **IADSA** (International Alliance of Dietary/Food Supplement Associations), to set the industry’s tone here.

Specific to online sales, the EU has “distance selling” regulations with local language requirements for websites. The intent is to arm consumers with the descriptions in their native language to fully understand product marketing and claims online, but, with English as a universal secondary language across the world, many products exist online without any website or label adjustment. The Internet does have borders.

They’re just not always well guarded. Any company planning to sell across those borders faces uncertainty. Given lower penetration rates in the EU for Internet sales, especially in Eastern Europe, that uncertainty and the Brexit tumult could easily inhibit success online for U.S. brands.

Currency concerns

Venardos remembers when **Herbalife** first entered Venezuela as an example of the way currency and repatriation of monies can affect global sales online. Venezuela was the fastest-growing market in South America, until Chavez showed up. In quick succession, the Chavez government introduced restrictions on imports, restrictions on the repatriation of profits, requirements to manufacture in-country. It’s interesting to note that, despite investment by major brands in building local presence, online somewhat skirts this risk. Think of China, where vibrant markets for direct sales to consumers online in a “personal consignment” model have taken hold, and think of how **Paypal** happens in an instant, a glori-

ous few seconds with little repatriation risk.

But the U.S. dollar remains strong globally, and, no matter how fast the cyber transaction, this inhibits sales of U.S. products in local currencies, even as most developing markets remain hungry for the U.S. quality seal of approval on products like supplements and cosmetics. Says Mark LeDoux, chairman and CEO of **Natural Alternatives International**: “Other markets are driven by demographics and economics. With the significant rise in the value of the U.S. currency, there is some inherent disadvantage in selling these goods into economies which have suffered currency devaluations. At the present time there is a real problem in getting currencies out of many markets in South America and Eastern Europe, and when combined with fairly blatant market protectionism favoring local producers, the sledding there is particularly difficult.”

Going online doesn't suddenly change that dynamic.

All eyes on China

Most experts in the global supplement game point to China straight-off as the story du jour in online sales, and for good reason. *NBJ* has covered the confusing waters of China's free-trade zones before, but the situation requires an almost daily diet of updates to stay current. It's easy to miss something like the single-day sales record announced by Tmall, Alibaba's B2C platform, in November 2016 of US\$17.8 billion. It's impossible to overstate how important that is for the industry's global online trade. Supplements are the second-largest sales category on Tmall's cross-border site out of Hong Kong.

The bottom line on China is that e-commerce has surfaced as a viable way to sell U.S. product into a huge consumer class willing to pay up for trusted supplements outside a chronically restrictive regulatory climate. Chinese consumers buy online at greater percentages than other countries, and they want foreign brands for many health products. With blue hat registration, an ordeal (\$150k and three years per SKU) and a new notification system looking less and less attractive (\$10k per SKU and you'll still need the assistance of a local

Going global

- » A quick tour around the globe, courtesy data from Euromonitor, reveals just how wired the supplement world has become. NBJ thanks Zambetti and regional directors at Capsugel, Taiko Ijichi in Japan and Morgan Laloux in Belgium, for adding insight and color to this data.
- » In Western Europe, online sales of dietary supplements have grown from 7.3% of total sales in 2011 to 9.8% in 2016. This compares to U.S. figures of 13.9% and 16.6%, respectively. “In Europe, pharmacy is still the more trusted sales channel, but that might start to change,” says Zambetti. Chemists and pharmacies accounted for 43.7% of total sales in 2016.
- » In Eastern Europe, online sales are much smaller, with the Internet accounting for 3.1% of total sales in 2011 and now 5.0% in 2016. The pharmacy channel dominates with 68% of total sales.
- » It's a similar story for online sales in the Middle East and Africa with the Internet accounting for 1.8% of total supplement sales in 2011, growing to 2.6% in 2016. Chemists and pharmacists accounted for 55.7% of sales in 2016, with grocery retailers taking another 22.3%. Sources expect Internet sales to continue to grow in the coming years in the Europe-Middle-East-Africa markets, with no clear reason to expect any dramatic increase or sea change.
- » In Japan, NBJ sources peg the total supplement market online at ¥225 billion in sales. A survey conducted by the consumer affairs agency asked men and women from age 20 to 70 where they bought health foods, including supplements. The top response was retail at 61%, but the Internet was a fast-gaining second at 49%.
- » For some category color in Japan, online sales of vitamins and minerals reached ¥103.6 billion, or 9% of total sales. For sport nutrition, ¥2.2 billion online accounts for 9% of a ¥24.1 billion total sales. The figures get more dramatic for weight management, where ¥25.8 billion in online sales accounts for 26% of a ¥99.2 billion total

agent), cross-border e-commerce appeals as the best game in town, but not without risk.

NBJ asked Jeff Crowther, executive director of the **US-China Health Products Association (USCHPA)**, to assess the pros and cons of selling online in China. For “free trade zones” where a bonded warehouse receives palettes, the pros include speed of delivery (3 to 5 days to a consumer's doorstep) and a lower tax rate (11.9% on supplements). The cons, however, include inventory risks of product expiring in the warehouse, and pre-approval requirements dictated by the overseer of the trade zone. This presents obvious problems for hot-button categories like weight loss and bodybuilding, but also for some botanicals where the Chinese pharmacopeia differs markedly from European and U.S. standards.

For a “direct shipment” model, straight from a foreign company to a Chinese consumer, the pros are, first and foremost, the

ability to sidestep Chinese regulations and oversight. The major cross-border platforms, like Alibaba or JD.com, partner with large Chinese logistics players (similar to FedEx in the U.S.) to avoid customs trouble. “Chinese consumers are leaning more toward this model,” says Crowther. “It cuts out the middlemen. They've found fake products in free-trade zones, and that's been reported publicly, so this lets the consumer go direct to the company.” Direct also eliminates the inventory risk of working through a free-trade zone.

The cons there are increased delivery time, although that too has improved to 7 to 10 days for most items, and the higher tax rate of a flat 15%. “Here's a real life example of the efficiencies now baked into the supply chain in China,” says Peter Zambetti, director of global business development at Capsugel and chairman emeritus at IAD-SA. “I've got a friend in Shanghai. He likes

Corona beer, so he goes on amazon.cn and orders a six-pack. It's on his doorstep for \$15 a week later. This has become so popular that it's not going to stop."

The cross-border e-commerce model became big business as "daigou" personal shoppers made good money buying abroad and carrying or mailing product back home. That model was ripe for evolution. Imagine a Chinese grad student in the U.S. bringing supplements back to her family, then moving that practice online through burgeoning C2C platforms at significant mark-ups. "Where there's an opportunity, the Chinese are entrepreneurial and they'll find a way," says Zambetti. "It can become a legitimate challenge for companies to protect their brands when you start to see five different offers online at different prices."

To wit: Experts showed *NBJ* evidence of this online with **Dr. Mercola** products. You can find saw palmetto from Mercola online for \$25.97, and on **Alihealth** for \$39.18. Purple Defense, a resveratrol product, lists online for \$16.97 in the U.S., and \$56.50 in China.

"This all stems back to trade," says Crowther. "China's trade policies with the rest of the world are so ridiculous. Alibaba is ingenious for figuring out a way around the policies, to bypass all that. Consumers want what they want."

Consumers' tastes and needs, however, don't set policy. If cross-border e-commerce skirts government oversight, does that present real risk to brands selling into China? Yes and no. Take Australia, where companies embraced the daigou subculture for popular brands like **Blackmores** and **Swisse** and encouraged sales through that channel, rather than kick off a bunch of cease-and-desist letters. According to many *NBJ* sources, Australia brought nuance to China and reaped the rewards for it, until the government changed course and took supplements off approved product lists. Blackmores' stock dropped 20% overnight. The company reported in August 2016 that an estimated \$200 million of its total \$717 million quarterly sales were tied to the daigou trade.

"We need to protect e-commerce before it gets abused," says Zambetti. "China

is such a big market, and it's been so restrictive in the past. E-commerce is a way to get this done, but sooner or later, expired or adulterated product will cause a real problem and the government will have to do something about it. Right now, China is not even accepting blue hat applications, and they're not up and running with notifications either. The industry is frozen there, or it's online."

Fickle government intervention be damned, however. Momentum matters. "It's at such a point now, Alibaba is so big, that if China changes policy on supplements and decides to operate more like Hong Kong, most of these cross-border platforms would probably just shut down. That doesn't mean internet sales would collapse. Tmall.hk just goes away, and tmall.com takes over. The supply shifts as needed. It moves to a different site."

Online shopping gets easier every day for consumers—that Amazon drone will show up any minute—but for companies chasing those virtual shopping carts, the cash register can move suddenly, at any moment, or across any border. ■

CHINA SUPPLEMENT SALES AND GROWTH, 2005-2018E



Source: Nutrition Business Journal (\$mil., consumer sales)

Not available in stores!

Online exclusive brands face obstacles to reap big rewards

By Ilene Lelechuk

A few months into **Ritual's** launch of its high-tech transparent multivitamin for women, a question came in from its health-conscious customers: What's with the sugar?

Cane sugar is one of the last ingredients listed on bottles of this carefully crafted and sourced supplement that Ritual makes with elements that are pointedly non-GMO, vegan, gluten-free and soy-free.

Ritual used a speck of sugar to manufacture and coat the tiny beads of vitamins and minerals that artfully float in nutritional oils within Ritual's see-through capsules.

But the Los Angeles-based startup quickly learned that cane sugar wasn't a fan favorite. In fact, the feedback was internet swift, thanks to Ritual's website-only sales model, which allows customers a direct and constant relationship with the com-

pany. Ritual's response was just as swift. In a matter of months, it replaced sugar with cellulose (tree bark) and corn protein (non-GMO, of course).

"It allows us to stay super nimble," founder Katerina Schneider says of the online model. Not only could Schneider immediately receive and respond to consumer feedback, she also could quickly replace her stock with the new formula because she didn't need to pull product off shelves of **GNCs** and **Vitamin Shoppes** across the nation. "We don't have to hold onto millions of bottles," Schneider says.

In an industry where companies are struggling to stand out in a sea of supplements, more brands see the advantage of website-only sales and are rethinking whether they need brick and mortar store presence to succeed.

NBJ Takeaways

- » Online exclusive sales allow brands to respond more quickly to customer response
- » Getting the first sale can be the biggest challenge
- » Match the message to the market
- » Creating customer relationship can be greatest challenge and greatest reward

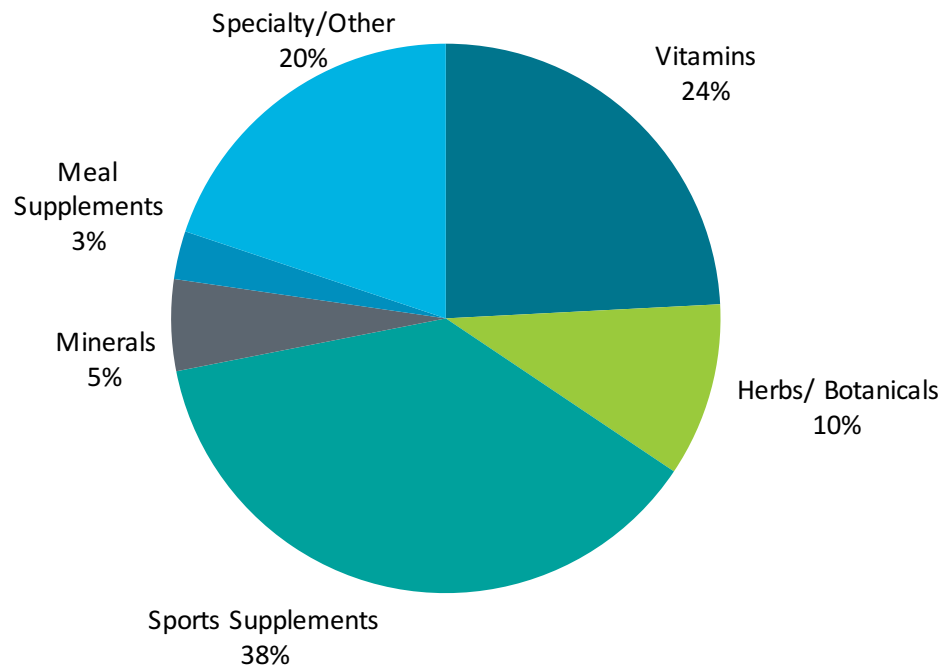
The web-exclusive model isn't just for startups that need an easy, inexpensive entry to the market. It's not for the faint of heart either. Online marketing is a constantly changing game requiring web

U.S. AGING SUPPLEMENTS SALES AND GROWTH, 2006-2018E



Source: Nutrition Business Journal (\$mil., consumer sales)

INTERNET SALES BY SUPPLEMENT TYPE, 2016E



Source: Nutrition Business Journal (consumer sales)

savvy, creative communication with customers and quick-change innovation. But brands that are web-only say the framework provides flexibility, a trove of demographic data and tools to build brand loyalty. It's not only sustainable; it could be the future.

Upclicks

Companies playing in the space know the market data support their optimism. Internet sales accounted for 18 percent of the \$14 billion direct-to-consumer supplement market in 2015, according to *NBJ* estimates. And that percentage is projected to shoot up, making the internet the fastest growing channel of direct-to-con-

sumer sales. *NBJ* projected that online sales will jump from \$2.5 billion in 2015 to \$4 billion by 2020.

Why? Consumers enjoy the convenience, savings and wider selection online. Fewer buyers are willing to walk into a big retail space and face aisle after aisle of bottles bearing healthful promises and an overwhelming number of choices. And don't forget about the millennials, an emerging demographic of health-obsessed consumers who are constantly tethered to their phones and are an important factor in the growing e-commerce world.

We spoke to consultants and brand leaders about the benefits and challenges of the online-only landscape. With online

sales, new brands can go two ways: put their product on a marketplace like **Amazon** or **iHerb**, or sell directly from their own website. The former offers the convenience of a robust one-click platform, but it also offers a place to get lost.

"One of the things we noticed with brands that put themselves on a marketplace is they still have to figure out how to get noticed," says Adam Butler, co-founder of the Butler Brothers branding studio based in Austin, TX, whose clients include natural food brands. "They are still trying to crack the code on it."

Alternatively, a savvy website-exclusive brand can use its pages to etch its personality, tell its founding story, explain its

“Once a consumer buys from us, we have entered a business relationship with them. We can answer questions and help them with our enhanced customer service. It’s a more premium approach.”

Sonny Stafford, Relizen

science, offer personalized nutrition and describe ingredients in great depth. “It’s especially important in (an industry) that has a lot of very vocal detractors,” Butler says, referring to complaints about adulterated products, overstated claims and other scandals of recent years.

Brands that stand out in this website sales landscape include Ritual, **RealDose**, **Elysium**, **Care/of**, **HUM Nutrition** and **Relizen**. Their sites lead with the “why” or “the science” or “truth and trust.” They tell stories beyond “we sell vitamins.” They promise transparency and detailed information through their websites. Ritual, for example, promotes itself as a brand “for skeptics, by skeptics.” Ritual.com has a feature called “Open Source,” which pinpoints suppliers on a world map and provides interviews with each manufacturer.

This pledge to be trustworthy and real—a reaction to bad press and consumer doubt—“is very much like a movement,” Butler says. “It’s more than a mega trend. It’s a new reality.”

From office to online

Three-year-old Relizen, a supplement offering natural hot flash relief for menopausal women, is one of those companies selling exclusively through its website and has no current plans to stock stores. Son-

ny Stafford, vice president of marketing for parent company JDS Therapeutics, explained why.

“Number one, it’s really about controlling our environment so we can hone and perfect our selling approach and business model,” Stafford says. “Number two, it’s a very good competitive advantage. Once a consumer buys from us, we have entered a business relationship with them. We can answer questions and help them with our enhanced customer service. It’s a more premium approach. And it allows us to gather feedback about how the product is working, which then informs our development work.”

The challenge for a website-exclusive company is figuring out how to drive consumers to the site in the first place. And then keep them coming back.

New York-based Relizen employs some social media advertising and SEO strategy but largely relies on the pharmaceutical model, sending out sales reps to high-volume gynecologist offices. Doctors who are sold on the supplement will then recommend Relizen.com to their patients.

Once a patient lands on the website, she’s greeted by prominent customer testimonials and physician endorsements. This landing page is one key ingredient to Relizen’s web sales success.

“In the world of supplements, consumers sometimes have felt duped by the scams that have happened and the run of press that has given consumers doubt,” Stafford says. “And one of the ways we get past that is getting these recommendations from doctors. It’s really helping us rise above the noise.”

Relizen.com provides much more information to potential customers than they’d get from a bottle or box sitting on a store shelf, or even from speaking with an enthusiastic Whole Foods clerk.

Follow the clicks

Los Angeles-based HUM Nutrition, which sells vitamins and supplements for beauty, pulls in most of its online customers through social media channels, including Facebook, YouTube and reviews on popular lifestyle websites such as Gwyneth Paltrow’s “Goop.”

Eighty percent of HUM’s sales go through the website HumNutrition.com, according to co-founder and CEO Walter Faulstich. But HUM isn’t purely a web business; it partnered with Sephora retail stores in 2014, two years after HUM launched. Faulstich says HUM realized that some beauty brand customers still prefer the “discovery process” of shopping in a brick and mortar store. Also, it made sense to connect pills-that-make-you-pretty with a leading makeup and skincare store.

All HUM customers are encouraged to go to HumNutrition.com for a free nutritionist consultation. Visitors take a quick quiz about their health, diet and lifestyle so a registered dietitian can provide personalized advice and a list of HUM supplements for clearer skin, fuller hair, stronger nails and beauty that “begins from within.”

From there, HUM works hard to cement consumer relationships by engaging

One of the things we noticed with brands that put themselves on a marketplace is they still have to figure out how to get noticed. They are still trying to crack the code on it."

Adam Butler, The Butler Brothers

them through emails and a blog that now has more than 100,000 subscribers, Faulstroh says. To capture more millennials, HUM recently added a video blog featuring recipes ("Anti-Aging Golden Milk" and "No-Sugar Protein Bites"), beauty tips (DIY face brightening mask), and other "edu-tainment" (a taste test involving camel milk vs. macadamia milk). Faulstroh's one rule: The content must be interesting, likeable and shareable.

The result of all this online and social media contact for HUM is "we have more data points than anyone out there," Faulstroh says.

Making the splash

For Ritual, it was a flurry of press coverage that initially drove consumers to Ritual.com when it launched last fall. Schneider attracted a lot of attention as a former venture capitalist and a 2014 Forbes 30 Under 30 list member who raised \$3.5 million to start Ritual. Ritual sells a single product: a unique transparent multivitamin for women, researched by scientists, made of just nine vitamins and minerals, and sold as a \$30-per-month subscription.

"We are spending very little on advertising at the moment," Schneider says, but future marketing strategies will include Facebook and Google advertising.

Schneider added that she has no immediate plans to move the product into retail stores. The online-only model allows

Ritual to cut out the middleman, provide "luxury at a fair price," and get to know its new consumer base. "Putting something in a store and hoping someone wants to buy it, and not getting to know who your consumer is, is not the model we are going after," she says.

Once consumers discover a brand's website, the next challenge is enticing them back again and again. One obvious solution is a monthly subscription model, which Ritual, Relizen, HUM and others offer.

Ritual also emphasizes frequent consumer communication, nurturing relationships through emails and social

media—Facebook, Twitter, Instagram. Schneider says she also likes to surprise customers with little gifts in their shipments, like the sticker calendar that went out for the new year. "We are creating an incredible experience for the consumer along the way," Schneider says.

Ears to the (virtual) ground

Ritual uses this constant contact to listen closely for feedback and respond quickly. Not only did Ritual remove the speck of cane sugar from its formula, but it improved the multivitamin's scent, which some customers found a little fishy. Apparently algal oil—a vegan source of omega 3s—can still smell like its seafood cousin. So Ritual added extra vanilla and activated charcoal and announced the changes in an email to followers in January, Schneider says.

HUM also is listening. For example, Faulstroh explained, HUM learned that some of its consumers were struggling with afternoon energy slumps, unhealthy snacking and weight gain. So, "we launched Raw Beauty powder last year in a mint chocolate chip flavor, an energy supplement with greens and probiotics. ... It was very popular, but we heard feedback that not everyone likes mint. We asked consumers what other flavor they'd want, and the result is we launched a vanilla and berry flavor in September."

As fast as life moves on the internet, these companies caution that running a website-exclusive business requires patience.

"Don't think that just because you have great product that people will buy it," Faulstroh says. "Think about how you can build trust. You want to have a long-term ambi-

"It allows us to stay super nimble. We don't have to hold onto millions of bottles."

Katerina Schneider

tion on this."

Relizen's Stafford adds: "The biggest lesson I'm learning is you need patience and stamina. In a very competitive online market, you must constantly develop, test, analyze and refine. And in that cycle, you are in it for the long haul." ■

Under the influencer

Reaching customers through customers

By Bill Giebler

On February 5, some 100 million Super Bowl LI viewers will witness an inspiring balance of exacting individual skill and remarkable teamwork, a display of fortitude, expertise and creativity combining to create an entertainment like none other.

And in between these much-anticipated commercials, a championship football game will unfold.

The commercial spots will garner the Fox network more than \$380 million—each 30-second placement costing advertisers more than \$5 million, to say nothing of the production costs. Looking at these numbers, one could conclude that television advertising is at the top of its game.

Yet, turning attention to the media and marketing presentations inside company boardrooms reveals traditional media being eclipsed by an ever-expanding digital marketing spend—with social

media dominating that digital piece.

In nutrition, where regulations keep the real value proposition off the label, those digital efforts may be more important than anywhere.

“Consumers are looking online for reviews, education, and guidance,” wrote Trevor Ellestad, PR, advocacy and influencer supervisor at **Vega**, responding to *NBJ* by email. “And they’re finding a growing volume of this information from digital media, influencers, and social media.”

Consumers are looking to be entertained, too, says Patrick Sullivan, Jr., CEO and co-founder of supplement brand Jigsaw Health. “Because if you’re not entertaining, you’re not going to capture people’s attention. And if you don’t capture their attention, you’re lost.”

To capture his customers’ attention, Sullivan produces situational #FunnyFriday videos, posted on Facebook each week.

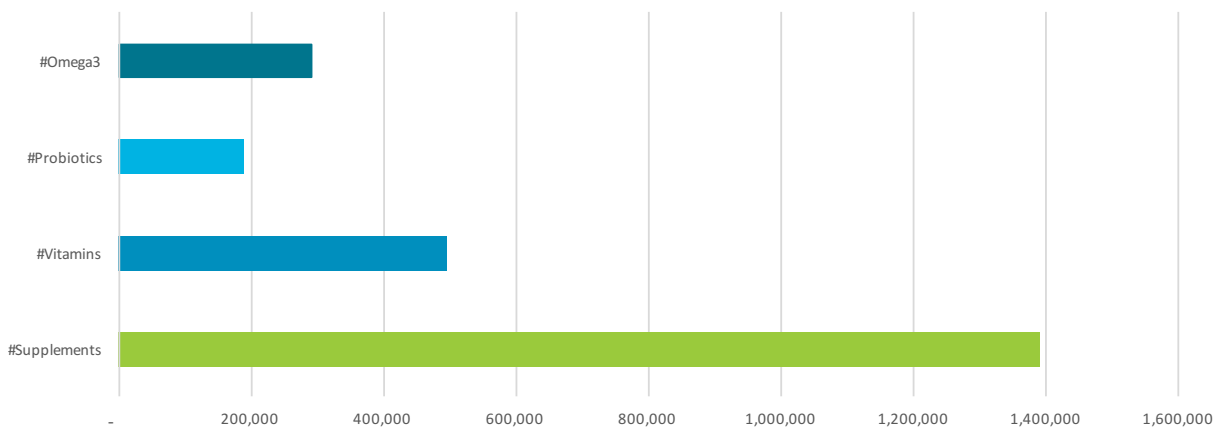
NBJ Takeaways

- » Social media runs on authenticity and the match between blog and brand can’t feel artificial
- » “Influencer relations” requires specialized skills
- » Tracking influencer reach is crucial and third party services are worth the money

The shorts, with only ancillary lifestyle relevance to products, aim to “give personality to and humanize our brand,” says Sullivan. “It’s like we’re doing our own product placement videos.”

From there, Jigsaw upped the relevance with weekly #AshWednesday videos, wherein business development manager Ashley Leroux interviews health experts. Along with their Tuesday

ESTIMATED REACH OF TWITTER HASHTAG, JANUARY 18TH, 2017



Source: Hashtracking

promotional emails, Sullivan believes, Jigsaw brings consistency, repetition and variety to their email subscribers, hitting their email list multiple times each week without fatiguing it, and always delivering a positive ROI.

Sullivan sees Jigsaw’s marketing approach as building on their existing audience. “Market to insiders,” he says, “and let them bring new people into the tribe.”

Outside of their own blog and Facebook page, Jigsaw has forged relationships with a few influential thought leaders who feature Jigsaw in their own content. This is not just good affiliate marketing, it’s the core of what’s now a central pillar of digital marketing: the influencer.

#FindingtheRightFit

Though a relatively new term, “influencer marketing” is simply the digital version of word-of-mouth. Harnessing the social part of social media, brands and bloggers are finding mutual benefit in working together, and what they’re finding is a virtual word-of-mouth that spreads exponentially.



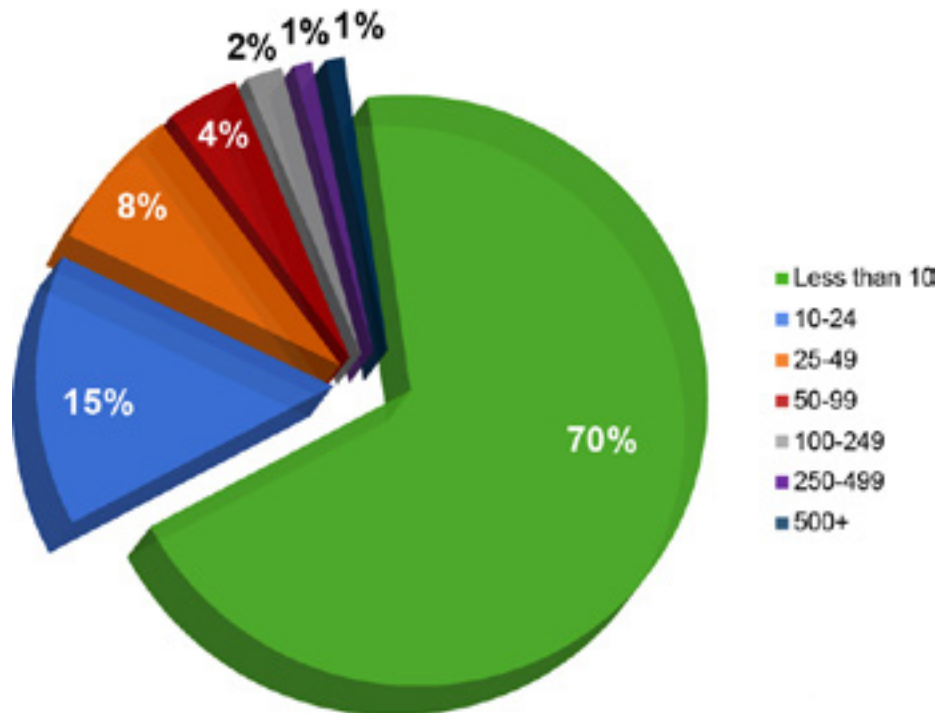
To learn more about it, NBJ turned to

Bridget Jewell, a creative director at Periscope, one of the top independent creative agencies in the country.

Privy to the spin that happens in marketing, Millennials and Gen Y-ers have been very vocal in the importance of honesty, transparency, and authenticity, she says. They’re pushing for companies to do a little bit more and they’re looking outside of those companies for the evidence. “So, they’re crowdsourcing,” Jewell continues. “Not only are they crowdsourcing from their community, they’re looking to other communities they feel they can trust.”

That third-party opinion, says Jewell, “is much more valuable than a company saying something themselves.” But to get it right, “It’s really important to make sure the influencer you work with is a

NUMBER OF BRANDING REQUESTS BLOGGERS RECEIVE PER WEEK



Source: Technorati

great authentic fit for your brand.”

Despite the lure of the macro-influencer with half a million followers, it’s often best for most companies to start small. Many companies are finding the benefit of micro-influencers, looking beyond the number of followers to the compatibility of message. “It’s about making sure the audience you’re reaching is the right audience and that you’re really being diligent about how you pick the people who will share your message,” says Jewell.

“Start small and start real,” Vega’s Ellestad agrees. “Identifying passion in one person, serving them, and building the foundation of one real relationship is always going to be more valuable than beginning a program that is far beyond the current capabilities of the company.” Furthermore, he continues, establish your goals and those of your influencer. “Influencer relations is about looking for shared opportunities for both the brand and the influencer.”

#ForgingInfluencerRelations

The search for influencers begins with identifying anyone who is already promoting your brand, product or message, says Jewell. Identify where your demographic is spending their time. Is it blogs, Instagram, Facebook or Snapchat? Then, she says, “Look up hashtags that may be associated with your brand or product and start looking at people who are posting using those hashtags.”

Find people who are already posting about your product, she continues, “and if they seem to be resonating with people you’re trying to reach, that’s a great starting point.”

Early in Jigsaw’s social campaign, Sullivan employed Famebit to get popular YouTubeers to post about his product. “I think I spent \$2,500 and sold about three bottles,” he laughs. “I need to remember to stay away from that sort of scattershot approach.”

To vet quality influencers, Sullivan says, “go to their [content] and see how many comments they are getting and how they are interacting with those comments.” Since subscribers and likes can be bought, he says,

“comments are a good way to see if someone is as popular as their numbers suggest.”

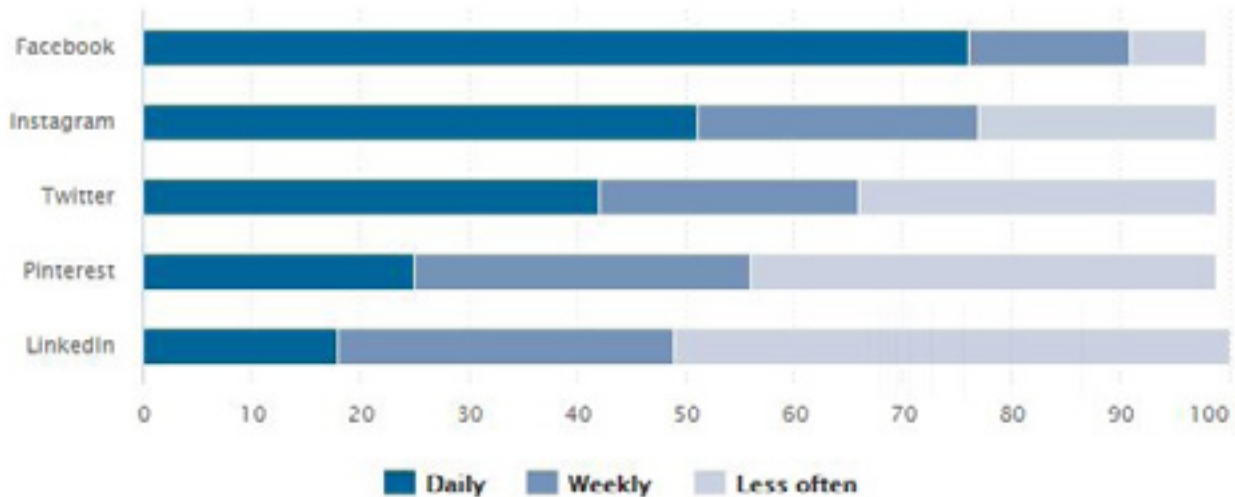
Jessica Mulligan is VP of sales and marketing for collagen leader **NeoCell**. The company has hired someone internally to forge influencer relationships, “and all she does is spend the day on the internet find-



ing people who are influencers that align with our philosophy.” That doesn’t mean reaching out to everyone with a big reach. “We go into their blog, we read what they believe and if we see philosophical alignment, we approach them about partnering.”

With no direct-to-consumer sales, NeoCell is a case study in the intangible value of social networking. “We’ve been doing

AMONG THE USERS OF EACH SOCIAL MEDIA SITE, THE PERCENT WHO USE THAT SITE WITH THE FOLLOWING FREQUENCIES



Source: Pew Research Center, survey conducted March/April 2016

this for a few years now, we've formed really close relationships with our influencers and they believe in our products. What's great is they drive business to retail by telling their audience where to buy the products."

NeoCell gives these influencers product. "Lots of product," Mulligan says, so they can reward their audience. "We don't actually pay influencers. We don't have an affiliate marketing program. It's just product. We love giving this product away because when people can try the product, they become new customers."

"From there," Jewell asks, "how far do you want to go or how large of a company are you? An influencer doesn't just have to be a person. We're seeing a lot more brand partnership happening." Product companies can partner with service companies that are relevant to the same demographic. "It's a great way to boost content," Jewell says, "but also to show that you know who your audience is, because the best companies on social are providing value to their followers, not just trying to sell them things."

Vega, like NeoCell, handles key influencer relations in-house and takes it very seriously. "Influencer relations is not a seasonal tactic to be applied in spurts, but rather a key component of what makes a brand authentic, relatable, and human," states Ellestad. Further, he emphasizes, these are real relationships that call for authenticity, generosity, and patience. The building of these relationships is little more than good, old-fashioned public relations, it seems. "Every time we interact with anyone," Ellestad advises, "we should assume they are an influencer."

"The single most important thing we've done to form strong influencers," says Mulligan, "is really care about the people who are on the other side of that computer screen. So, we don't send templated emails asking them to be brand ambassadors. We really read what they're about—their blog—and we connect with them on a human level. And that forms lifelong partners."

#Simplify

The fitness, fashion and travel industries were the first to capitalize on digital influencer relationships, says Jewell. This longevity makes them models of best practic-

es. "When the blogosphere exploded," she says, "a lot of them were fashion bloggers." These same industries (and bloggers) were the first to take on Instagram, too.

Instagram brings simplicity of message, and elevates the ability of the hashtag to unify themes. Going out on Instagram with a specific campaign, says Mulligan, "is a way to narrow the whole Instagram world into your particular group of people that are talking about your products."

Then it's a matter of tracking. Each platform offers analytics. NeoCell tracks multiple platforms through Nuvi, a third party that monitors the social media world and captures any mention of specified terms. Further, says Mulligan, "Nuvi will show how big their influencer bubble is and how many people reposted it. It's a daily monitor that our social media team logs into. It's really great because you can see who's actually an influencer."

#RulesofEngagement

Like any marketing program, influencer program costs must be allocated, and outcomes must have traceable metrics. The low-hanging metric is direct revenue, like what Jigsaw is seeing as Facebook and affiliates generate online purchases.

"Every post needs an action or option the reader can take, says Periscope's Jewell. "It could be 'learn more' and could go to a webpage, it could be 'buy now.' So, you could actually drive purchase or drive people to your site where you have a whole host of metrics you can track."

Influencer marketing will have countless less tangible impacts, though, and this is where it can be important to remember the second half of "social media." "The interesting play when it comes to influencer marketing," says Jewell, "is that the spend for that is generally shared between general marketing and media budgets."

Like those Super Bowl ad spots, influencer marketing is largely about getting products or services in front of additional eyeballs. "That's exactly what media does, so finding that right balance in your com-

pany is important. Where do we have the most dollars and how can we shift them?"

Keep it broad, though, warns Ellestad, "We live in a very omni-channel world, and it's very easy to get caught up in allocating money into very specific buckets." It's critical to see each action, including the smallest social media campaigns, as essential components of greater marketing—and company—objectives. "Take a second look at any marketing campaigns that don't address offline *and* online tactics every time."

For those efforts not directly tied to revenue, engagement is the key metric. "Are people liking, clicking, sharing, commenting?" asks Jewell. "That means they've actually spent time with the piece of content."

For a qualitative assessment of engagement, Ellestad brings it again to a clear understanding of campaign goals—and the influencer's goals. "KPIs change based on what we are trying to achieve, so decide which metrics are important by asking yourself how influencers are going to help you reach your goals—and find out what that influencer is hoping to achieve by building brand relationships."

If it's about reach, for instance, Ellestad suggests focusing on metrics that reflect the expansion of brand awareness: reach of relationships, impressions, brand mentions. "If you are looking to forge a deeper relationship with your community and drive certain behavior," he says, "you'll want to find a way to track very specific engagements that are tied to that behavior, whether that's an increase in conversation or purchase, changing sentiment, or any number of other goals."

Ultimately, companies look to these programs for influence, not sales. And in a program based on human relationships and storytelling, success comes from connections. In the world of social media, that cuts both ways. "It's just as much our responsibility to tell the influencer's story internally," says Ellestad, "as it is for an influencer to help tell a brand's story externally." ■



The lightning round

Quick hits and case studies on issues in the direct-to-consumer market

By Todd Runestad

For nutrition, the path to the sales success has long been about finding the right niche. In direct-to-consumer, the number of niches grows exponentially by the day, and getting comfortable in your niche is no longer an option.

With that in mind, we offer these case studies of companies that have moved from one niche to another or created a niche of their own.

Mail Order Makeover: From catalog to click

The mail-order star of the supplements space has long been **Swanson Health Products**, whose catalog of a broad range of supplements priced to sell is the go-to source for aging American consumers. The Swanson portfolio includes products from



major supplements manufacturers as well as its own brand including the premium branded Lee Swanson Signature Line. It also is the holy grail for ingredient suppliers, especially branded ingredient companies, willing to break even on large-volume deals in order to gain the acclaim and recognition of their ingredients to a broader public. That can pay dividends down the

road with future deals with other companies.

For the mature customer, shopping online is not exactly second nature, yet swansonvitamins.com has moved aggressively into cyberspace, all while maintaining its value appeal. Its “Buy-1-Get-1-FREE” deals go on all day, every day, along with deals of the day, sale specials, overstock and clearance tabs. The online source allows consumers to shop by any of 31 categories from amino acids to women’s health. Shoppers can even shop by specialties including cruelty-free, non-GMO or kosher. It also supplements product offerings with a Swanson Blog, which offers recipes and insights into health and beauty. This elegant online shopping experience is the right move preparing for the time when printed catalog is no more.

Honorable mention has to go to **Healthy Directions**, which, similar to Swanson, targets an older demographic. The company has a strong innovation pipeline and an advantageous direct marketing and e-delivery capability that encourages consumer education and automatic replenishment. Healthy Directions appointed a new CEO and CFO four years ago, and was acquired 18 months later by **Helen of Troy** for \$195 million. It then wasted no time recruiting a director of online acquisition marketing.

Healthy Directions’ go-to-market model features collaborating with doctors to create unique magalogs that educate consumers about its products and then drive traffic to its call centers and the website.

NBJ Takeaways

- » The digital experience is what keeps customers loyal in the direct-to-consumer space
- » Success in an increasingly crowded fields requires an extra service others can’t match
- » The most important thing in direct-to-consumer is simplicity

Auto-replenishment is a key element of the company’s financial foundation.

Retail Reset: Blending brick-and-mortar with point and click

Disruption in the retail space has reached seismic proportions, with 20th century brick-and-mortar titans Macy’s and Sears looking ready to fold at any minute. Meanwhile, online-only master **Amazon** is not just killing it—hitting so much volume that it can afford free shipping—but Amazon itself is about to enter the brick-and-mortar game, and it is doing it with its disruptive AmazonGo technology that will let shoppers grab and go without bothering to check out with a cashier.

Supplement stores are trying to figure out how to compete in a virtual world. The natural channel’s value proposition centers on high-touch, with staffers helping customers with their health problems. But with a bottomless online content well

available for consumers to digest, that advantage shrinks and it's hard for quality to compete with price.

The **Vitamin Shoppe** is way ahead in figuring out its online solution. Discounts, free shipping on orders more than \$25, and weekly online-only sales entice frugal shoppers. And an online platform that features dozens of categories and health concerns puts shoppers where they want to be. A special "goals" page links to the top eight health concerns, from "foundational health" to brain health.

GNC is also in the game, with a website that breaks down health concerns by gender, has dozens of videos, and a subscription service that has free delivery and allows shoppers to adjust the frequency, and lock in prices.

Honorable mention goes to **Pharmaca**, the Boulder-based chain of stores that elegantly merges the pharmacy model with a vitamin store, replete with herbalists and pharmacists working together under one roof. Website visitors immediately receive a 15 percent discount coupon incentive for joining the mailing list. You would be forgiven for thinking this is a touchy-feely health-food store type of web environment, but it does mention its pharmacists, compounding services and how to transfer prescriptions from the big drug store chains.

Not Your Grandfather's CSA: Internet orders transform the box of produce model

Community-supported agriculture, or CSAs, bring the farm home to the front door. Shoppers in essence purchase a share of products from a regional farmer. An upstanding new-way example of the conceit is **Go Organic NYC**, not least because it's based in hipper-than-thou Brooklyn. The differentiation is endless customization, which means buyers won't be stuck with a third of a box that's filled with strange produce they have absolutely no idea what

to do with. How many ways can you serve mizuna and bok choy anyway?

"We were big advocates of CSAs, but I found that getting things I might not like every week was a bit much," said Go Organic NYC owner Brian Lai. "We're running parallel with the Amazon and jet.coms of the world. A lot of people are moving to the world wide web to place orders."

The draw for consumers is convenience, of course, and freshness and easy replacements on anything that's not satisfactory. Think about life as a New Yorker—you can get your case goods and cat litter delivered from Thrive or Amazon, your fresh dairy and produce from Go Organic NYC, and go to the store only for specialty food. What a great way to not carry heavy bags of food around the city on your way home.

This, then, could be the future of food—freshness, customized, delivered straight to the front door. Corporations are also getting on board as they seek to go Google and provide healthy foods for employees. That certainly leaves an opportunity for CSAs to include dietary supplements as part of their delivery options. After all, Amazon deftly moved beyond



books. What's stopping CSAs from offering supplements? A regimen matched to a meal plan could be a hit.

Meal Kit Cage Fight: It's not easy to stand out or survive in a crowded market

Meal kits began as a way to offer convenience that was healthier than fast food

and both faster and better (and a whole lot less hassle) than what most people were going to make at home. It's a great idea, but now there seems to be a new one popping up every week. Some are organic. Some are local. It's a bit of a Wild West gold rush out there right now, and not every model nor every company will survive.

The logo for Habit features the word "habit" in a large, lowercase, serif font. Below it, the words "FOOD, PERSONALIZED" are written in a smaller, uppercase, sans-serif font.

The winners will need to carve out their own unique niche.

One Bay Area company is doing just that.

Habit, based in Emeryville and funded by Campbell's, is going full-service with RDs and personalized with diagnostics. Started by **Plum Organics** co-founder Neil Grimmer, Habit is a health portal featuring gene, microbiome and blood tests to hone in on the real individual. From that, it provides both coaching services as well as fresh prepared meals customized to consumers and delivered to their door.

"We are a wellness company," says Grimmer. "There has to be a simpler, more accessible way for others to learn what foods and nutrients their bodies crave to be the healthiest they can be."

Customized meal plans are chock full of options. Want three meals a day? Check. How about one single nutrient-dense breakfast of champions? Check. Looking for a three-week detox? Check. Delivered to your door? Yes, of course.

QA Thriving together



Q&A with Jeremiah McElwee, Thrive Market

» With a history in brick and mortar and his heart in natural products, Jeremiah McElwee, senior vice president for marketing at Thrive Market, is helping take the spirit of the industry into e-commerce in a thoughtful way. McElwee says Thrive Market, described by Fortune as “Costco meets Whole Foods,” has a food access mission well matched to the goals of the best supplement companies. While some supplement makers fear online outlets like Amazon steal sales from the natural retailers that keep the industry growing, Thrive Market presents itself as something very different.

NBJ: What is the crossover between customers buying food and customers buying supplements?

McElwee: Traditionally, e-commerce has been driven primarily by health and beauty. When we emerged about two and a half years ago, we really thought there was a big void in food. So, we skewed heavily toward food. We subsequently built out that part of our catalog more. Interestingly enough, we're kind of circling back and building out some more supplements, going deeper with some of our major brands. We're still heavily skewed towards food at this stage of our business.

NBJ: What is the percentage of sales?

McElwee: It's probably somewhere in the range of 70% food and then 30% non-food. Non-food includes supplements, health and beauty, bulk and food storage, diffusers. We have some toys and apparel. Basically, anything that you could possibly want in a sustainable version is what we're doing with our catalog.

NBJ: In terms of supplements, what are you doing to differentiate from other online outlets?

McElwee: It goes back to quality standards and differentiation there. We are very diligent on having only the highest-quality products. We definitely do not get into any of the gimmicky products or products with over-the-top and/or illegal claims. We're heavily focused on food-sourced, food-derived, food-origin-type products. Then, we also have a very large Paleo audience. Also, we're geared on functional foods, crossover foods, things like Four Sigmatic Mushroom Coffee where there's active mushroom ingredients which, back in the day, would have been almost considered a supplement product. Now, we're seeing more and more of those crossovers.

NBJ: You're vetting the supplement companies you offer. How do you communicate that to the customers?

McElwee: I'll be totally honest with you, we've not done an excellent job. We benchmark on our quality. Throughout the site, you'll see a lot of that messaging. We're actually in the mode right now of building out that education and building out that dialogue with our members more diligently. Most of our activity over the last two years has been keeping up or ahead of the curve and trying to keep our head above water. We had some really big ambitions about content and how we're going to evolve that and how we're going to communicate some of those messages. We just have not been able to get to it. Long story short, we've got a lot of messaging throughout the site that talks about our quality guidelines.

NBJ: Can customers research it on the site themselves?

McElwee: You're able to sort on 70-plus different values on the site. So, you can sort vegan, Paleo, gluten-free, wind power. There's a whole bunch of different ways you can sort, so that helps people looking for specific quality attributes. But, we've got a huge opportunity, in our mind, to really do a deep dive and give an education to our members around why we're different, how we're different. Also the brands we sell, why they're different and what they're doing on the quality side. We're deep diving that right now and really excited to get into that this year.

NBJ: Well, in terms of that, or in terms of supplements in general, what have you learned from brick-and-mortar?

McElwee: That's a funny question for me personally because that was my background for 20 years. Everything I brought, I learned from brick-and-mortar, but I think the big thing there is that there's huge opportunity for educating a new generation of consumers. It's funny, a lot of even the legacy health food stores and the regional chains and even some of the national chains, they've grown up, right? So, they're 30-plus years old, and they're not circling back and focusing on educating the next wave of consumers. It's almost like, well, we read that book already; we don't need to

keep telling that story. I think that's a big miss because there are so many new people walking into the aisle every day. That's how we view it at Thrive Online, it's like we've got a big opportunity to really educate and to talk about products and talk about ingredients and talk about benefits of said products and ingredients. It used to happen in brick-and-mortar, and it doesn't happen enough anymore. We need to evolve that.

NBJ: How much of your blog content right now is supplement focused, and where do you see that going?

McElwee: We do a variety of topical content every day. We have six pieces of original content every day, so I don't know what the percentage is. We tend to focus between products, categories, but then also just lifestyle items and life hacks and just living a healthier life. A lot of those blogs have references to nutritional supple-

It's kind of hard to continue to be critical of our model versus other online discounters that are all about price, price, price, race to the bottom. Most of the vendors that have concerns, we've been able to really alleviate.

ments and how you can live healthier. Honestly, we continue to focus on just a 360 approach to healthy living and we do supplementation as part of that.

NBJ: You don't know the percentage, but do you see that going up or down?

McElwee: It shifts with seasonality, right? We're going to be doing a big push with supplements here pretty soon. We'll probably have time periods where we're focused more on back-to-school and we'll probably mix in some kids' vitamins then, and things like that. Then, we'll probably get into the wellness season and as you know, it spikes back up with all the different supplements for immune function and just being healthier in general. If this was an interview focused on food and you asked me, I'd probably give you a very similar answer.

NBJ: Is there a balance between promoting health and promoting the healthiest brands?

McElwee: We're very conscientious about not hammering people over the head with products all the time. We try to make that subtle and have links and have related products after our blog or after our different forums of content and on social media. Then too, we, like most retailers, love product, right? So, you'll see a lot of our social posts are specific to a product that we love, and what's great about it.

NBJ: Have any supplement companies expressed any unease about working with Thrive versus brick-and-mortar, and what do you tell them?

McElwee: I think some supplement companies have that general mindset of "online discounter" quote, unquote. For that, we're very, very much always focused on our social mission. For us, we don't view ourselves as an online discounter. Yes, we sell products at 25 to 50% off MSRP every day. We try to have a very competitive price for our members because you're paying to shop on our site. But we also have a firewall up, so we're not typically blasting out or cheapening brands saying, "Hey, save money on this brand." We're more focused on the lifestyle, living healthy, and our social mission that is making these products available to all Americans at prices they can afford. I think at face value, some companies may be concerned when they hear about us at first, but then they learn about our model and they understand what we're trying to do and why we discount and how it's a virtuous circle because every paid member that joins, we donate a free membership to a lower-income family, teacher, military veteran, or first responder. It's kind of hard to continue to be critical of our model versus other online discounters that are all about price, price, price, race to the bottom. Most of the vendors that have concerns, we've been able to really alleviate. There are concerns about MAP pricing, which we are totally comfortable addressing with suppliers and we have do-not-advertise policies. We can absolutely make it so that brands aren't being put out there in an uncomfortable position. We also have several brands that we sell at MAP that are very adamant about MAP pricing. We obviously want respectful, win-win partnerships. So, we'll work with them. If our members are wanting the products and they want to partner with us and they understand what we're doing with our social mission, we'll find a way to make it work in general.

NBJ: What do you think are the biggest threats to online supplement sales right now?

McElwee: I think as with everybody, we're always watching the media. There's always suspect media reports and things like that which, to me, is a bigger threat to all supplement sales. For us, I think that's always a really big threat. Then, in general, just com-

petition, right? It's a very heated landscape. We're a little different, again, because of our social mission and our responsibility to our members and our Thrive Gives members that we're not in that race to the bottom. We're trying to have a competitive everyday price that is a great value when you shop every day for a long period of time, you're going to save a lot of money. But, we're also not trying to get in fistfights with every retailer on the block. I think it's a balance of the overall threats that we all feel as retailers selling nutritional supplements and making sure we hold high integrity and we're not making any fictitious claims or doing anything to jeopardize the landscape, and then just the general competitive pressure that we're all facing.

NBJ: Do you see any dips in sales after negative media coverage on supplements?

McElwee: It can happen. It depends on the category that's zeroed in on. Depends on the scope of the report, also how loudly it gets publicized. As you know, sometimes those hit and they only hit us in the industry. We're the only ones who see them. Other times, they go viral and then everybody's talking about them. When those things happen, we definitely see it. The interesting thing in my observation is, typically the impact is very targeted in that if there's a negative report on coQ10, it'll impact directly that segment for a short period of time. Then, it either rebounds or it stays plateaued. The overall category in general, you don't typically see a major impact from those reports that I've experienced.

NBJ: How would you describe your geographic mix of the customer base, and is that changing?

McElwee: That's what's been most exciting for us. When we launched, we imagined that it would be concentrated in major metropolitan areas, that we would be kind of heavily skewed toward the West Coast, but in actuality it's turned out that we're pretty spread out. Some of the last demographic research we did showed that we were still running in line with the per capita of each state's population. So, we were pretty evenly dispersed across the different states based on their population, and we've been continuously surprised. Also, very delighted because our mission has been spreading out access, whether that's for price or just sheer availability of these products. So, it's exciting to us that we're reaching consumers across all the lower 48 states in a pretty even amount based on population.

NBJ: What do you wish you knew two and a half years ago that you know now?

McElwee: We had a great business plan, and we thought we'd be wildly successful, but obviously back then you sure do wish you could see it and plan for it and be a little faster even, right? I think our growth was so rapid that we were playing catch-up.

Knowing that we had a sure thing would've been awesome. We could have opened our second 300,000 square foot warehouse a year sooner and been ready to grow as fast as we really wanted to go, because we've been riding the brakes a lot. We're finally stepping on the gas again, but there were some growing pains for us. I think, too, we shifted over the last six months to really focusing on what we call valuable customers. Our first year and a half, we literally just cast a broad net and we were like, 'We

Our first year and a half, we literally just cast a broad net and we were like, 'We want everybody to join Thrive.' Then, we found quickly that not all consumers are created the same. People were coming into the site, placing one order, and leaving.

want everybody to join Thrive.' Then, we found quickly that not all consumers are created the same. People were coming into the site, placing one order, and leaving. It was really hard for us to get a gauge on what they didn't like or why they weren't staying. That was mostly just because we were trying to get everybody to the table. We're now realizing the importance of investing smartly in acquiring valuable customers that get what we're trying to do and want to stay with us.

NBJ: What makes somebody a valuable customer?

McElwee: It has nothing to do with income level or education level or anything. It's more just people who have an interest in healthy living and want to live a healthier life. Because we have some really amazing Thrive Gives customers that shop regularly, and are so grateful. We get incredible love letters from our Thrive Gives community. When I say valuable customers, it's not about income level or how much they spend. It's more just people who get it, who continue to purchase with us, make it part of their lifestyle, and give us feedback and have that two-way dialogue so we can grow and get better. That took us a little too long to figure out. Just to focus on that, and really focus on retaining our existing member base and growing them, rather than, 'Let's get more and more people.' ■



2017

EDITORIAL CALENDAR

(11 issues per year including 2 double issues)

- February:** Direct to Consumer
- March:** The Dark Issue
- April:** The Business Achievement Awards
- May:** Health Practitioners
- June:** A Supplements and Market Overview
- July:** The Science Issue
- August:** The Generations Issue
- September:** Head Games
- October:** The Sports Issue
- November:** The Confidence Issue
- December:** The Innovation Issue



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