

The Crown Jewel Goes Global

Shaklee CEO Roger Barnett
Interviewed by Dan Henderson

Welcome Roger, I really appreciate your willingness to share your thoughts on why you love this industry, why you bought Shaklee, and how you see the future.

To get started — your family’s amazing track record reads like a novel. Would you mind sharing with our readers how it all got started?

Roger: Well, my family’s business got started 75 years ago in Glasgow, Scotland, where my great uncle started his life selling clocks door-to-door. He was one of these entrepreneurial business geniuses that just had a knack for understanding what an average person would want to pay for a product.

Then he met someone who had a mail order catalog business who said, “Why don’t you put your clocks in my mail order company?” And he did, and eventually took over that mail order company, and he built it into the number one mail order catalog company in the United Kingdom.

He wasn’t satisfied with the speed in which his customers were getting his products, so he went started a private shipping service, and built that into the number one private shipping delivery service in the United Kingdom.

His customers wanted credit, so he built a consumer credit company to the number one credit consumer finance company in the United Kingdom. And there’s a pattern here. Basically his view was — if you’re going to be in business — be number one.

That company that my great uncle started 75 years ago, is today worth over \$9 billion. Since then, we’ve created three other companies that are worth in excess of one billion dollars each.

How do you think this happened?

Roger: I think it’s because we have the spirit of entrepreneurship inherent in creating great companies. Our goal was always to have a market leadership position and build businesses. We’re a family who believes in building over time, not destroying, but building.

My great uncle, even though he was very, very, very successful in business, wasn't in it for the money. He made a lot of money, but at the end of his life he gave away close to one billion dollars to charity.

He was into building wealth and then use the money to help other people. He was an incredible role model ... and that was the start of our family track record.

Is it true that your life and business philosophy was also greatly influenced by your mother?

Roger: Yes that's true. My mother is a great role model because she has dedicated her life to helping other people. She spent the last 37 years, (which is the entirety of her career) working with the Legal Aid Society in New York giving free legal service to those families who can't afford it.

She worked with the poorest families in New York. Everyday she would leave her home and go out to the different boroughs in Manhattan, Bronx, Queens, Brooklyn and Staten Island and work with these people to improve their lives. It is an inspiration because of all the good that she has been able to do through donating her time and effort and work.

That had to be inspiring. What is she doing now?

Roger: She has just retired from the Legal Aid Society and we thought that she might want to stay home, but now she has become the President of the Legal Services Corporation of America. She moved to Washington — left her home in New York — in order to oversee (on a national level) the giving of public interest free service to those who can't afford it.

Let's talk about your formal education. I understand that you have a Yale law degree and a Harvard MBA. When you were in school preparing yourself for the future, I would imagine that you thought a lot about being in some traditional business. Was network marketing on your radar screen at that time?

Roger: Network marketing was not on my radar screen because I didn't know about it at the time. My goal in the early stage of my career was really to prepare myself for whatever business that I could get into. And frankly, when I was in college, law school and business school, I worked in Paris, London, Hong Kong, Tokyo and New York trying to find the perfect business that I could devote the rest of my career to doing.

I didn't find it there. I looked and looked and looked at traditional businesses. I eventually spent some of my prior career in traditional business but it didn't give

me the satisfaction I was looking for. Nor did it present the business model that was required for me to make the commitment to spend the next 40 years of my business career just building one business.

So I feel delighted that after searching for all these years, I came across the network marketing industry. Because I sincerely believe it is the single best business that I have ever seen.

Before buying Shaklee, you built two other companies ... can you tell us about those?

Roger: One domestic company we developed enjoyed a 50% market share. We tripled the size of the company and grew it to an 80% market share and the number one company in its field. The other company was an Internet business that we built from scratch to be the leader in its category as well.

I understand you spent almost \$20 million researching businesses in the process of identifying one you could fall in love with. Is that true — and can you tell us what you saw in this industry that is so compelling?

Roger: It is true. The network marketing industry is a business which has unlimited growth potential. The lessons I've learned from my prior business life is to try and find a business with an unlimited runway to grow. In our former businesses we had a number one worldwide market share and 80% of the market, but the market was limited. There was no further growth potential for us.

And network marketing is big business. It is an \$80 billion industry and it is growing at around 4% a year. That means that there is a very substantial industry. Secondly, there is no one dominate player. The industry is highly fragmented. No one company has close to a even a 10% market share in our industry. That is pretty unique.

And finally, it is a business which has no constraints to growth. You can work in 100 different countries. You can work in many different product lines. You are constrained only by what you yourself can do.

We like to bet on ourselves in our family. We like to bet on our success and we like to bet on our distributors and our partners because we think that if there is no external limitation then we can achieve great things. So this business is big. It is global. It has the best compensation system ever been invented for rewarding sales people to grow a business. That leverage allows us to partner with entrepreneurs on a global scale.

Why you think this business model is so extraordinary?

Roger: Because it allows us to work with independent entrepreneurs. Think about it. If a company is entrepreneurial, you can do very well in life. If that company can partner with a million other entrepreneurs, what we can do together is basically unlimited.

By allowing people to have the kind of incentive plan which pays commissions on not only the business that one individual does, but also on the whole organization and all the people that they bring into the company ... well, that allows us to attract truly outstanding entrepreneurs and grow the business together.

You mentioned a moment ago that your mom had spent her entire life giving help to the poorest families in New York. And you told me earlier that your great uncle gave almost a billion dollars to charity. Does that affect how you see this as a global opportunity?

Roger: It does. First, if you are going to be in business, you should make money, because that is the scorecard. One of the criteria for our family in selecting a business is that it be a good business.

I think the network marketing industry, and I'll repeat myself here, is really one of the single greatest businesses that we've ever seen. But more importantly, for me personally ... I want to be able to spend my time in a business that will better the lives of other people.

In order for us to be successful with Shaklee and have live up to its true potential, we have to make people healthier through the use of our products. And we need to make our distributors wealthier ... because only through paying them commissions and inspiring them to grow their businesses will they be successful. We have to show people how they can earn a living while improving their lives.

It is a unique model. We can make money from a good investment together, and yet, only if we make other people's lives better. It is that combination that really attracted me to this industry. It has allowed me to say ... I'm committed enough to dedicate the rest of my business career to building this company.

I find it interesting the network marketing industry has been around now for almost 50 years — but it seems that all of a sudden ... we have people like you,

Warren Buffet, Lee Iacocca and other business superstars buying into this marketing model. What has changed?

Roger: I think what has changed is that the quality of the companies has improved over time. The ability to do this business in a professional way which delivers on the promise that we make to people who come into business with us. It wasn't always this way.

Frankly Dan, In the beginning of this industry, not everyone and not every company was as scrupulous as some of the leaders are today. The business has always been a good business but now many people like ourselves or Warren Buffet (who in the beginning were skeptical) don't have any reason to be skeptical today.

Today the industry is maturing and is able to deliver high quality products and a better life for its distributors.

And here's another reason. The world is opening up for this model in a way that it never has before. In the United States there are only 13 million distributors. There is a population of 280 million people. That means that there are more than 250 million people in this country who are not yet distributors.

Now with the addition of people like Warren Buffet or Lee Iacocca or our family to this industry, we can expose this business for what it really is ... and what a truly different life you can have by participating. We think it is now poised for explosive growth here and around the world.

As the maturation of the industry continues over the next 10 years, what do you see as the growth pattern going forward?

Roger: I think over the next 10 years this industry will grow more than it has in its entire history combined. The reason is because there are entire markets that have not yet come online within network marketing. Let's take for example, China. China is only now beginning to open itself up to this channel. Eventually China will probably be the single greatest market in the world.

In the meantime, in the United States is already a \$24 billion market. Only 13 million people are distributors — so, as we demonstrate the proven efficacy of our products and the professional management that we are bringing to companies like Shaklee, we think a much greater percentage of the population will want to participate.

Here's the view from where we stand.

The majority of the world is not yet a participant in what I believe is the single greatest business we've ever seen, the greatest incentive compensation plan that we have ever seen and additionally a business which allows people to live an alternative life. It allows people to make a living while feeling that they are contributing in some way to society at the same time. We think that is just a much more compelling way to earn a living than straightforward salary and a job.

And as the baby-boomer generation expands and they realize that there is not enough income from retirement — and as the young people look and say, “What can I build today that will last me for the rest of my life?” — network marketing in general and Shaklee Corporation in particular are going to become increasingly attractive to these people. That is why I say the next 10 years, our industry and our company will grow more than it has in our entire history combined.

I can see you really did your homework ... how many companies did you investigate before you finally decided Shaklee was your choice?

Roger: We looked at over 75 different companies in the network marketing industry. We were searching for a company that we thought had the same values, the same quality and integrity and reputation that our family has had in all of the different businesses that we've had. But on top of that, it would have to have the single greatest growth potential in front of it of any company that we looked at.

That's a very tough criteria.

Roger: Exactly. Because we would never be in a business that would compromise our reputation and our integrity. We also believe the way to make money in business is to have future growth potential.

What did you find so compelling about Shaklee?

Roger: Shaklee had that unique combination of this great heritage, trust, and a 50 year track record. Not only have we spent more than \$250 million on research to have the best and most clinically proven nutritional supplement products in the entire industry ... but we've also delivered on our promise and our commitment to our distributors over the last 50 years. We've paid out more than \$3 billion in commissions. Some of them have been earning checks every month for over 40 years.

So Shaklee had the heritage that we were looking for to use as a platform. And then we asked, “Does it have the growth potential we're looking for?”

Was that criteria number two?

Roger: Right. We think the growth potential for Shaklee is obvious. We are a half a billion dollar company in only five countries. We have some competitors that do a billion dollars in sales in 58 countries. So if you do the math — because of our ability to not only expand within the United States, but to expand globally — have the best growth potential of any significant company that we've looked at.

What took you so long to find the right company?

Roger: Because I wanted to be able to build something ... and I wanted to be able to reap the benefits of those efforts over the next 10, 15 or 20 years and for the next generation of my family. Instead of going from company to company and buying and building or getting capped by some external market limitation, I wanted to spend my time and effort building a business for the future generations in my family that we would have unlimited potential.

That is why Shaklee really was the perfect choice and frankly, at the end of the day, Shaklee was the only choice for us. We are just fortunate and blessed that we were able to take advantage of this opportunity.

One question I've wanted to ask since you bought the company. Obviously you could have started your own company from scratch for a fraction of what you paid for Shaklee. So why didn't you?

Roger: That is an excellent question because frankly we were beginning to think that the only way we could participate in this industry was to start our own company. We couldn't find other companies that shared the same value systems that we had. But basically here are the stats: 99% of all start ups fail. And when you start, you have to attract an established group of great distributors over time.

Considering the failure rate of start ups ... we took a look at the risk/reward ratio and felt it wouldn't be the right choice for us.

Frankly, we think we can accomplish our dream and objective of having a positive impact on the world with much greater certainty and a much greater chance of success if we started with a half a billion dollar company like Shaklee.

Despite the fact that Shaklee is 50 years old, we view this as a start up. It is a 50 year old start up with a half a billion dollar infrastructure. We are going to take this company to be a \$5 billion company in 50 different countries.

We have this incredible infrastructure and quality ... product reputation, clinical trials and scientific proof other companies don't have.

I understand that you spent a lot of time with some of the most successful leaders in the industry asking questions, actually going to meetings, studying the business. Most owners just don't do that. What did you take away from that experience?

Roger: You cannot understand the network marketing industry unless you spend time with distributors. Distributors are the heart and soul of our industry. Frankly, businesses come and go mostly because of actions by the corporations, not by the actions of distributors. So I decided before I would ever get locked into a corporate office, I would try and learn from the people who really build this industry ... the distributors in the field.

I have been privileged to spend time with an incredible assortment of people from a lot of different companies who are some of the most established and most powerful and influential leaders in the industry. I thank them all for their time. They taught me some of the fundamentals of the business.

What important lessons did you learn from them?

Roger: One of the most important lessons I've learned is that we are in a people business. You must take care of your field and you must create an endless series of continuous opportunities for your field to grow with you as a company. If you provide that — there is a trust, a sincerity and people realize that your greatest pleasure is to see them succeed and that you won't be jealous of their success, you want to celebrate it.

You want to create opportunities for them to grow so that when they join Shaklee there will be a life long opportunity together. It truly is a partnership so that we can all fulfill all of our material dreams, but equally important, all of our other dreams and live a better life together.

Shaklee's first 50 years have been extraordinary ... how do you see the next 50 years?

Roger: I look at Shaklee in 50 year increments. There was a 50 year heritage that we've been able to acquire and there is the next 50 years we hope to build and personally influence. I think that Shaklee has always been a great company and now what we want to do is differentiate ourselves from the rest of the pack by doing things that are just at a world class level.

The challenge that I give to our managers and the challenge that I give to our partners in the field is to be the best in class in the world at everything that we do.

Let us provide for our distributors the best opportunity, pay out to our distributors the highest percentage of commissions of anyone in the industry, launch the best products — proven by science so that we have that reputation, that foundation—that bedrock that makes a Shaklee product different and yet compelling enough that it is truly unique and differentiated.

We want products our customers can't acquire anywhere else in the world. I want to provide the best tools and the best training. I want to provide an opportunity for our distributors to experience things because they are part of Shaklee that they would otherwise not be able to experience anywhere else in the world.

By doing these things, we will create truly a great company. Not just a great company in our industry, but we want to create a great company benchmarked against any other company in the world.

Over the next 50 years as we start to do that step by step by step, we think that our future is going to be quite remarkable because the foundation that Shaklee is founded on is a remarkable base from which to grow.

I love the fact that you see owning Shaklee as a strategic, long term investment. I'd love for you to spend a couple of minutes talking about that.

Roger: In our analysis of this industry, where companies have gone wrong, and where they have failed and ultimately (what has created a great source of frustration for distributors as they build an organization) is a diminishing asset over time, is that there has not been a long term strategic view as to what the company is and how the company is going to get there.

And so I think one of the great advantages that we have is that Shaklee is now owned by a family with a single perspective as to what will make this company great with a long term view about how to execute that plan step by step in a consistent, strategic direction.

When people join us, they can know that Shaklee, 50 years from today, will be managed by the same people, will have the same philosophies, the same values and the same direction.

When partners, which is what our distributors are — choose who they want to partner with to build their business, they can have the confidence and the security to know that the investment they make today will not be undermined by a company which is for sale tomorrow or changes the CEO and the strategic direction and flip flops and doesn't understand clearly where it is going.

We think that that stability, in terms of ownership and strategy is a crucial component to why we think Shaklee will become the number one company in our industry.

Along that line — I have heard you say that you want to pass this business on to your children Spencer and Violet. I think that that really touches a chord in people who have had a challenge in being able to find the right company in this business.

Roger: We think that if you are really looking at your business in the correct way, people should search for a place they can spend their life and they can pass it on to their children if they like. That is the opportunity we now offer in Shaklee.

It is being able to pass it on from family generation to family generation. You can do well for a year or two in many different companies, but the question is, if you do the work that is required to be successful in this business, don't you want to have that pay off in a residual income for decades?

You bet. Let me ask this question. I know that you and Sloan (Roger's Wife) have some pretty high-powered friends and I'm interested to know what they think about your owning a network marketing company.

RB: I think that there is a tremendous amount of ignorance about what a network marketing company is in the established business circles. Frankly, when I've taken the time to explain it to my friends, peers and my other relationships, the single most consistent answer and response is that now they're impressed. I'm serious about that.

I believe you are serious.

Roger: I know I am impressed! I believe passionately. I have effectively sponsored myself into Shaklee. I have looked at this business (not knowing about it until a few years ago) and spent the time analyzing the business before I bought in.

Again, if you are in business, one of the benchmarks to success is how much money you can make. There is nothing wrong with making money in business.

The second thing is *how do you make your money?* What do you have to do for it? Do you make your money creating healthier and better lives, like we do in our business? Do you make money creating less healthy lives, like some people in say — the tobacco business do.

Both are good businesses, but the question for us is, for us and our families is, not only is it a good business, but how do you make your money? What impact does that have on other people?

If you explore this as an industry — there really are very, very few opportunities — and frankly I see none, that do both at the same time and the same way the network marketing industry does.

When you first started to learn about the products Shaklee offers, and you talked to our science team — what impressed you most about the philosophy and the quality of our products?

Roger: Well, I learned there really is a difference between Shaklee's products and the products of every other company that we looked at. There are two major differences. First of all, we believe in using natural ingredients in our products. In fact the cost basis in our products is substantially greater and the research and development expenditure is substantially greater because we prefer to use natural ingredients, not synthetic ones. At the end of the day, we think that's going to be better for people. That was a true difference between Shaklee's products and the other companies' products that we saw.

And secondly, from every respect, Shaklee's products are over-engineered. I mean that in a complimentary way. The standards are high. There's so much time, effort and testing. There are 83,000 tests a year that are conducted for Shaklee's products to make sure they match up to the particular specifications that we require. Every time there's an option or a requirement for for the product to test out at a certain level, Shaklee's standards exceed it.

The idea there is very simple: Shaklee wants to simply create the best product in the industry. And after looking at these different companies and having our team of people evaluate the quality of Shaklee's products, I am absolutely certain that these products are the best.

That to us was very important because we can add a layer of marketing, and we can add some excitement and dynamism to the way in which we market our products. But if the products aren't fundamentally based on quality, we don't want to be associated with it, and that's one of the reasons why we didn't buy another company prior to buying Shaklee.

Do you think it's possible for us to widen the gap that separates us from the competition?

Roger: Yes. I think there's significant opportunity to continue to widen the gap over time. Many of our competitors and most of the people in the industry that sell through other retail channels, are pressured by short-term pressures to try and get a product out without having the scientific basis to do it.

Frankly, the cost associated with doing clinical trials and getting peer-reviewed published clinical trials is too much for many of our competitors to do. So if we continue to make the investments and combine the research that we're already doing, and if we invest the resources to do that, we will continue to differentiate over time. I am committed to that end. We are adding very talented scientists to our team on a regular basis.

I was impressed that even before the ink on your contract was dry, you spent over a million dollars to bring 150 of Shaklee's top leaders out to Half Moon Bay in California ... just to personally introduce yourself. Why did you feel that it was worth a million bucks out of your own pocket? Why not just write us a letter?

Roger: Because we're in a person-to-person business. And there is no substitute for looking someone directly in the eye and telling them what your plans are. I think it was critically important, and frankly it was the greatest investment we ever made. It was a very inexpensive way for us to communicate and bond and frankly, from that weekend, friendships were formed.

I think each of us — both the leadership and our family felt that we belonged together and that our families were joined together for the future. So there really was no other way to do it; it's simply the right thing to do.

I think was worth more than it cost.

I think you're right. When I learned that you bought the company and I read that you acted as the managing partner of a private family holding company that controlled over \$2 billion in assets ... I just naturally assumed that you purchased the company from those assets. I found out later that was not the case.

Would you comment on that?

Roger: Well, my job for a number of years was to search for investment opportunities, and frankly, Shaklee was the single greatest investment opportunity that I had seen. I really wanted to make a personal statement, and make a personal commitment — because for me, it was not going to just be an investment, it was

going to be the way in which I was going to spend the rest of my professional business career.

I wanted to make the investment myself, because I was going to spend 30 or 40 years building this company, and frankly, I just couldn't turn it down.

Most investors hire CEO's to run their company, but you have decided to move your family from their roots in New York to the Bay area and personally operate the company. That makes a big statement.

Roger: My philosophy is very simple. Every business that our family has invested in, we have run ourselves. We think that we are (and we try to say this with some modesty) but we're not prepared to delegate the ownership and the control of a company. We think we do a pretty good job, and I think our track record speaks for itself.

Therefore, we like to take control and we like to take responsibility. Because at the end of the day, we have ourselves to be held accountable for it. And given our prior track record of building great companies, it's the only way we know how. So, this is where I need to be, and this is where my family needs to be.

Let's talk about the fun part ... the future. You've said you planned to make Shaklee one global company. Tell me what that means for our current distributor force, and for new people that are coming into the business. What does it mean to be a global company?

Roger: Well, Shaklee previously was two different companies. There was a separate company in Japan, and then Shaklee Corporation which was the United States, Mexico, Malaysia, and Canada, that was a separate company as well.

From my standpoint, if you're going to be a great company, you need to be unified in your direction, so that a Shaklee experience in Japan is the same as a Shaklee experience in Mexico, is the same as a Shaklee experience in the United States, is the same experience at Shaklee in China.

So it's the power of consistency, with a unified global vision with a management team that is getting the best ideas from all over the world. Together so we can create one great Shaklee Corporation. I think that's a critical component of why we're going to be successful.

Does this mean that a Shaklee distributor in America would be able to sponsor people in Japan, and eventually in China, and that people in Japan would

eventually be able to sponsor people in the United States and have that volume tracked?

Are we all going to have the ability to participate in these countries?

Roger: Correct. It is our goal ... and our mission ... to have a unified global opportunity for our Shaklee field, so that no matter which country you're in, you're able to sponsor and build a business in each of the other countries that Shaklee operates.

You seem to be totally confident Shaklee is going to be the #1 network marketing company in the world in the next 10 years — using a concept you call “perpetual accelerating momentum.” What does that mean?

Roger: Well, perpetual means “continuous, never stopping.” Accelerating means “faster and faster.” And momentum is this power and growth. So I feel that as Shaklee gets bigger, we will grow at a faster rate.

The reason is that unlike most other companies in our industry, we are going to take the profits the company makes and reinvest in growth engines in our company. In doing so, we're going to get this cycle going — the larger we get, the more funds we're going to reinvest in the business, which will differentiate us further from our competition as we continue to grow and grow and grow.

I believe that it will take us half the time to grow from one billion to two billion as it does for us to grow from half a billion to one billion, and again half that next time to get the next billion after that. Because the larger we are the faster we're going to grow.

You have also said you believe long-term — only a small number of companies are going to dominate this industry and that Shaklee will be one of those.

Roger: It's clear that Shaklee will be one of them, and I think that what's going to happen is that as we become a company that is world-best, (products, commissions that we pay out, training, incentives, recognition) all the different components that are drivers to this business — it will be harder and harder for other companies to catch up and compete because they won't have the resources, nor will they have the infrastructure of people around the world in order to build such a global business.

So that's why I think in the future, that there will only be a handful of companies that are established already today, that are going to be the dominate players forever.

You mentioned earlier that you would like to sign every bonus check over a million dollars for a signal months bonus. Can we assume something about your philosophy from that statement — that the more money our leaders make the happier you will be?

Not all the executives in our industry share that philosophy.

Roger: You're absolutely right. The more our leadership makes, the happier I will be. Nothing will make me happier than to suffer from writer's cramp because we're writing so many checks of that magnitude.

Roger, no doubt timing is a critical factor in any business venture. Why would you say that those people should take a look at Shaklee right now?

Roger: Well, I think you can look at actions because actions speak louder than words. Personally, we spent \$310 million to buy Shaklee, because we think, in its history, right now is the single greatest time to join.

Roger, I want to thank you so much for sharing your thoughts and your vision with us today. As this company gets into momentum around the world, maybe we can get together and do this again.

Roger: Dan, any time. Thank you very much.