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## THE WALL STREET JOURNAL

### **Nu Skin Is Set To Take Plunge In China Market --- Utah Company Has Spent \$70 Million, Four Years Preparing for Challenge**

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Nu Skin Enterprises Inc. is ready to roll out a line of skin-care products for 1.3 billion consumers in mainland China, a move fraught with challenges but one that could pay off in a big way.

The Provo, Utah, company is the latest American skin-care product maker to gain entry to China's vast market. It has spent \$70 million and four years of development to gain approval to start selling its specially developed Chinese product line at 31 retail locations in 14 cities.

China represents an important building block in the company's plans. With some of its current markets, such as Hong Kong and Taiwan, already mature, the company needs to enter new markets in order to drive revenue and growth.

Nu Skin's biggest single market is Japan, which generates 50% of its revenue. The U.S., contributes only about 17% of sales and is seeing waning revenue.

During Nu Skin's second-quarter conference call in July, Chief Executive Steven Lund cited new-market development as an important catalyst for growth, with China as an important part of that.

Nu Skin anticipates breaking even during its first year in China, with sales of \$20 million to \$30 million. In five years, the company projects revenue of as much as \$300 million. Nu Skin's revenue totaled \$967.62 million last year.

Wall Street analysts, while enthusiastic about the company's expansion, are mixed in their opinions about of Nu Skin's adding China projections into their models.

William Steele, analyst at Banc of America Securities, says he hasn't figured the Chinese market into his model, since sales for the first year are "minimal" and he believes it is "next to impossible" to break out revenue by country. N

On the other hand, Chris Ferrara, an analyst at Merrill Lynch, says he is modeling in some China revenue for 2003 and sees the expansion contributing more in the future.

Nu Skin said current growth targets don't include any China volume. "There is tremendous upside to China . . . but there are some unanswered questions; we haven't gotten enough visibility to attach specific numbers," Mr. Lund said.

Nu Skin is treading on territory already flagged by Avon Products Inc., Amway Corp. and Mary Kay Inc. To

succeed, Nu Skin must not only face off with its competitors, but also tackle China's unpredictable business climate.

The company is confident it will do well in China because of its record of success in so-called analogous markets such as Taiwan, Hong Kong and Singapore. But mainland China has a very different business environment from neighboring Hong Kong or Taiwan.

To comply with China's current ban on direct selling, the company has established retail locations from which all sales must be conducted. Also, sales reps must be recruited by the company, and the company pays them a fixed salary plus a sales-based commission to comply with other Chinese labor laws.

Nu Skin relies on its sales reps to recruit and train new members. The company pays its sales reps based on the number of products sold and people recruited.

Rich Wood, Nu Skin's vice president of finance and new-market development, said the current modified sales approach "can be very successful." Even so, Mr. Lund is optimistic that the current restrictions are temporary as China opens up to foreign competition, allowing Nu Skin to do even better.

Under a World Trade Organization pact, "they've agreed to allow direct selling by 2004, and so those regulations are coming online and we are comfortable that we will be able to do business in the regulatory scheme they are building," Mr. Lund said.

Direct, door-to-door selling, is a relatively new idea in China and one that has been viewed with some suspicion. A proliferation of corrupt pyramid schemes tainted the reputation of even legitimate American companies in the late 1990s and resulted in a government crackdown on all forms of direct selling in 1998.

"China is one of the least transparent markets in the world. The government is very intrusive and unpredictable," said **Usha Halev**, professor at the College of Business Administration of the University of Tennessee, Knoxville, and author of several books on business strategy in China.

Confident that the pyramid-scheme scare has healed in China, Wall Street anticipates Chinese customers to add to Nu Skin's bottom line very soon.

As the newest player in the China market, Nu Skin must also play catch up with competitors that have larger distribution networks and more extensive product lines on the market. The rivals are all targeting the same population -- women on the upper end of the urban market.

Nu Skin is starting small. Its Scion line has 12 products featuring Cyprolix, a "special ingredient complex" made up of hydrolyzed soy protein and willow-bark extract. The line includes a facial cleansing gel for 60 yuan (about \$7); scalp-and-hair treatment for 30 yuan and hand-and-body moisture lotion for 48 yuan. Nu Skin intends to introduce its premium line of Nu Skin-branded products soon and then launch its line of vitamin supplements, Pharmanex, in two years.

"Like any new venture at any company, we'll have to see," how Nu Skin fares, said Jay Kaplan, a portfolio manager at Royce & Associates, one of Nu Skin's largest shareholders. But "it's reasonable to conclude that they have a good chance of being successful" in China.

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