Sales Growth Expected to Continue for GNC Stores and Online

Companies: AMZN, COST, GNC, VSI, WFM, WMT

September 28, 2012

Research Question:
Will GNC store sales slow over the next three to 12 months?

Summary of Findings

- Factors cited as driving sales at GNC Holdings Inc. (GNC) include convenient store locations, reasonable prices, high product quality, broad selection, new products, an expanding customer demographic and natural foods—leading 20 of 23 sources to expect sales to increase or remain flat over the next three to 12 months.

- Sixteen sources expect GNC sales to increase; four believe sales will remain flat and only three expect sales to decline.

- Suppliers expect GNC sales to increase over the next 12 months in the 11% to 35% range.

- The controversy over methylhexanamine (1,3 dimethylamylamine, or DMAA) is not expected to hurt GNC sales. Stores and customers are moving away from the product and although it is still found in some products, store personnel offer alternatives.

- Sales of GNC products at Wal-Mart Stores Inc.’s/WMT Sam’s Club are expected to attract new customers who would not normally shop at a GNC store. However, one supplier said these sales could hurt GNC if existing customers opt for the lower-cost larger offerings at Sam’s Club over GNC stores.

- Online sales of supplements and vitamins are increasing, and a customer and store employee think this will negatively affect GNC as customers pursue lower prices. A supplier and industry specialist both think GNC’s online offering is improving and expect online supplement shoppers to patronize GNC.com.

Silo Summaries

1) SUPPLIERS
Five of six suppliers expect GNC sales to increase and one expects sales to be flat or down. Sales have increased in the 11% to 35% range year to year and this growth is expected to continue. Factors driving sales increases are expanded customer demographic, new offerings, including natural foods, good prices and quality products. One source expects Vitamin Shoppe Inc. (VSI) to provide stiff competition; he also views the sale of GNC products at Sam’s Clubs as a negative for store sales.

2) GNC STORES VISITS
Six of seven GNC store employees were positive regarding sales over the next three to 12 months. Five expect sales to increase, while one expects sales to be flat. The one source who was negative said sales were seasonally slow this summer and they have not bounced back as expected. He cited online shopping as the reason that sales are depressed at his store. C4 was cited as a favorite replacement by customers for DMAA products. The DMAA situation was a non-issue for most stores.

3) INDUSTRY SPECIALISTS
Four of five industry specialists expect sales for GNC and the entire supplement/vitamin segment to grow over the next 12 months. One source pegged growth at 3% to 5%. Sam’s Club sales are viewed as a positive by sources as it will attract new customers and have little or no impact on the GNC stores because of the different clientele. The DMAA issue is not expected to have a major impact on GNC. Vitamin Shoppe and Max Muscle are considered strong competitors, but they will have limited impact on GNC because they are small.

4) GNC CUSTOMERS
Four GNC customers expect to continue buying at the same and possibly increased levels over the next 12 months. GNC’s reasonable pricing and convenient store locations were cited as positives. Two of the four customers had heard of the BADDASS Nutrition product line but do not use it. Shaklee and Costco are where the two non-GNC customers shop for supplements. The Shaklee customer said she could not find what she wants at GNC and the Costco customer admitted he is giving up selection choices for a lower price. One GNC customer said online shopping will impact GNC as people go for low price over quality.

5) TRAINERS
None of the four trainers interviewed buy products from or recommend that their clients buy from GNC. Their consensus is that online competition is escalating for GNC. Competition is also coming from Whole Foods, chiropractors, trainers and Trader Joe’s. Teens and young adults just getting into working out are a prime demographic for GNC and one source said the BADDASS brand will appeal to this age group.

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Background

Blueshift’s April report found both GNC and Vitamin Shoppe well-positioned to support current store expansions, with market saturation of little concern. Also helping GNC combat the possibility of falling same-store sales is the company’s exclusive access to certain products, effective advertising campaigns, strength in sports nutrition products and a growing younger customer base, with 25% of Gold Card sales coming from those aged 19 to 29 compared with 17% in 2006. Suppliers and industry specialists in Blueshift’s June report found that GNC’s sales would fall as much as 6% if it were to remove DMAA products from its stores, though all but two sources said consumers would quickly find alternative pre-workout supplements if DMAA products were no longer available.

CURRENT RESEARCH

In this next study, Blueshift assessed whether GNC sales would slow over the next three to 12 months. Blueshift employed its pattern mining approach to establish and interview sources in six independent silos:

1) Suppliers (6)
2) GNC store visits (7)
3) Industry specialists (5)
4) Customers (6)
5) Trainers (4)
6) Secondary sources (4)

Blueshift interviewed 28 primary sources, including one repeat source, and identified four of the most relevant secondary sources focused on the supplement industry.

Next Steps

Blueshift will continue to monitor GNC sales to determine the rate of growth. We will monitor its online sales and competitors’ online sales to try to determine their impact on brick-and-mortar GNC store sales. We will monitor the overall growth of the health and supplements industry to determine how new players in the market will affect GNC sales.

Silos

1) SUPPLIERS

Five of six suppliers expect GNC sales to increase and one expects sales to be flat or down. Sales have increased in the 11% to 35% range year to year and this growth is expected to continue. Factors driving sales increases are expanded customer demographic, new offerings, including natural foods, good prices and quality products. One source expects Vitamin Shoppe Inc. (VSI) to provide stiff competition; he also views the sale of GNC products at Sam’s Clubs as a negative for store sales. Another supplier indicated that GNC has product fulfillment problems. Online sales of supplements are growing.

➤ Wholesale manager at California supplier

GNC sales will continue to increase in the 15% to 35% range, as it has in past years. This source is supplying more products to GNC than he did last year, and the company’s GNC sales continue to grow. The increase in food products may be due to GNC’s efforts to venture into nutritional food categories. Online sales do not appear to make a dent in GNC store sales.

“GNC’s sales will continue to increase this year. We’ve seen sales increases of around 15% to 35% in the past several years, and this year should be no exception.”

Wholesale Manager
California supplier

GNC’s sales will continue to increase this year. We’ve seen sales increases of around 15% to 35% in the past several years, and this year should be no exception.
“We are supplying GNC stores with more products than a year ago.”
“All of our products are food condiments, and in my opinion, sales have been increasing due to GNC’s efforts to venture into other nutritional food categories and not just supplements.”
“We haven’t seen a drop in sales due to online sales. In fact, GNC sales have increased year over year for the past several years.”

Owner of a natural health supplement company
Business has been growing steadily at GNC and has been up about 20% the past three months and up as much as 25% year to date. The source expects this growth will continue, as people purchase more nutrition products in fall and winter than in summer. GNC is one of the company’s biggest customers and the source is very happy with their working relationship. GNC’s customer base seems to be expanding to include more customers looking for health products. Source was unaware of the DMAA issue and hasn’t seen any ill effects from it.
“We seems to be climbing for some reason. It seems to be 20% better than a couple months ago. I don’t know if it’s a matter of restocking, but the last few months have definitely been better on the average. We’re up 20% to 25% over last year.”
“I’m hoping things stay the same. We are moving into the time of year when this type of product does better; summer is the slow time, but since sales were up in summer, I’m quite optimistic.”
“We have our product on our website and Amazon[.com/AMZN] carries most of our products. We’re just getting established with Amazon. GNC is actually our largest customer for our packaged product.”

Director of sales for a natural health product company
The source is very happy with the company’s relationship with GNC, and sales are up at least 11% over last year. In the past three months, sales only grew 5% to 8% because of supply issues with its main product. The company does well at GNC because the store’s demographic has expanded to all kinds of people interested in health, not just bodybuilders or vegans; the store is perceived to have good prices and consumers see the products at GNC as desirable. The source was unaware of the DMAA issue and has not seen an impact on sales. He said the fact that so many people don’t have health insurance has spurred more to seek alternatives like their products. In general, the natural supplement and food channel is expanding in all retailers from GNC to Whole Foods Market Inc. (WFM), so the source expects sales at GNC to continue growing. The company sells online, but it is not a big part of its business.
“We’re up double digits over year to date; it’s probably 11 and change percent up since last year.”
“In the past three months it was somewhere in single-digit growth, between 5 and 8 percent.”
“It’s been a little less in the last three months because there was a shortage of organic apples last year so we had to allocate product this summer and we got behind. We probably left a lot of business on the table. In some ways, we’re a victim of our own success.”
“A couple things [explain the growth]: GNC tends to fit our demographic pretty closely. Their prices tend to be good, based on their business model, and I also think GNC is perceived by consumers as having the kind of products they want.”
“I know they have had challenges in the past and present and I can only speak from my selfish perspective, but they’ve done a fine job.”
“We see the growing demand not only with GNC but with our distributors and consumer base as well. The growth trend is very strong.”
“We’re in the natural food channel and natural will grow 10% a year over the next five to six years. Whole Foods is our biggest customer and they plan to quadruple their sales base (number of stores) in the next 12 years.”
Independent sales representative for national distributor (non-GNC), repeat source

Sales at GNC and the other nutritional supply companies will continue to increase for the next 10 years. The DMAA controversy hasn’t hindered store sales, and DMAA products are still being sold in GNC and elsewhere. The younger generation is concerned with preventative care and staying healthy. Many of them do not have good insurance coverage, so they frequent the supplement stores rather than visit physicians. They are also big online buyers, raising online sales to 30% to 35% of total revenues. To compete with GNC, Vitamin Shoppe has gone public and international. VSI is very efficient, and GNC will need to work on new competing tactics. GNC sales at Sam’s Club might backfire on GNC stores if consumers discover less expensive products and are willing to buy larger packaging.

- “GNC sales, all nutritional supply companies, will have increased sales in the next three to six to twelve months. I’d say the market is good for the next 10 years. The younger generation is interested and inclined to stay healthy, and they are into pre-care and have minimal hospitalization insurance.”
- “Our GNC sales have been down recently. But they are still a strong unit. GNC still has DMAA on the market, so I’m not sure if [the U.S. Food and Drug Administration] ruling has affected them or not.”
- “I haven’t heard of any stores losing sales to the DMAA ruling.”
- “Sports nutrition sales in general are increasing. It used to be that sports nutrition comprised 40% to 45% of a store’s business, but recently, in the last 18 months, this has jumped to 45% to 50%. More and more people are into these products. It might be because of advertising on television.”
- “The value of the supplement and nutrition companies are doing well. Retails sales are up overall. I think it is because of the economy. People are losing their hospitalization programs, they are losing their healthcare, and they have turned to fitness organizations.”
- “VSI is after GNC. That’s their target, and they are putting pressure on GNC. They are the only two large retailers out there. It’s like two football teams looking at each other.”
- “VSI has 500 stores, and they are moving internationally. VSI really, really wants to be a profitable company, and that’s why they went public a while back. VSI is very efficient and excellent at managing inventory, at distribution; they opened a new distribution center in California that is making a difference. They have a good head on their shoulders. GNC will have to come up with other ways to stay profitable.”
- “Online sales are affecting every store, everywhere. Online sales have almost doubled in the last two years. More and more younger people are buying online. It used to be that online sales were more popular around the holidays, but now online sales are 30% to 35% year ‘round. If you know what you want and don’t need the touchy, feely thing, then you buy online. You don’t need to worry about the hours.”
- “GNC will try to push its own products as No. 1. The employees get bonuses for ringing up a particular product, and the bonuses increase their paychecks. They are under pressure to sell GNC products. This produces competition within a store because a bonus is only given to the person ringing up the sale. If I were a GNC customer, it would discourage me.”
- “Mom-and-pop stores are just the opposite. There may be products that give bonuses, but they are divided among all employees at the end of the month. This is more customer-friendly, more of a team effort.”
- “I’m surprised to hear about GNC in Sam’s Club. You usually can’t buy GNC except in GNC stores. Sam’s Club is a wholesaler and buys in volume, so the prices will be a little bit cheaper. If customers find cheaper GNC products at Sam’s Club, why would they go to GNC stores? Of course, GNC may package the products differently for Sam’s Club, maybe a 100-[tablet] size Vitamin C or a 250 size. Or something may be as large as 300 or 600-[tablet] size.”

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Independent Sales Representative National Distributor (non-GNC)
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Owner of supplement group
GNC sales will increase during the next 12 months. GNC is inconsistent in replenishing suppliers’ stock at all stores, creating a problem for manufacturers. This supplier feels the group no longer needs GNC to be successful. The source was one of 10 companies receiving a warning letter from the FDA to withdraw DMAA products. Even before the letter, the company was developing an alternative product, which took four months to introduce. The product is now doing well and appears better scientifically than the old DMAA product. GNC is withdrawing DMAA products from selected stores. GNC caters to unsophisticated bodybuilders; those who do their research buy the products for less online or at mom-and-pop stores,
- “GNC sales will increase over the next year.”
- “There are tons of companies dying to get into GNC, but I think they’ll be surprised once they get there.”
- “We’ve been with GNC for almost a year, and we were very excited to get on board with them. But that excitement went away quickly. We are on the fence about what we will do now. We don’t need GNC to be successful; we’ve crossed another plateau. Some of it is my fault; we weren’t prepared to support GNC the way they were used to being supported.”
- “GNC screwed up some of our replenishments. Stores were calling us, asking why we were pulling out of GNC. We weren’t, but the GNC warehouses weren’t replenishing the stores that were selling our products. Once the consumers see that a product is no longer available, they move on, and you’ve lost the customer.”
- “GNC needs to do a better job of managing what they have. They need to replenish their stock. They don’t suffer, but the manufacturers suffer dramatically. They are not back-managed well.”
- “GNC has a different audience than the bodybuilders we cater to. The bodybuilding public goes to the mom-and-pops or buys online. The less-educated consumer buys at GNC, even though the prices are higher. They don’t do their research, and they depend on what the clerks tell them.”
- “GNC is backing off of DMAA in select areas.”
- “GNC is not a bad company. But if you can’t play their game, they will put you under.”
- “Our new pill is better by science. The new pill may work better than the DMAA, without the side effects of DMAA. DMAA gives you a certain feeling, a rush. It has a huge following; some people like that feeling.”

Sales representative for East Coast sports nutrition company that no longer sells at GNC
This source pulled away from GNC a few months ago. As a result, GNC sales will decrease or stay the same over the next year. GNC clerks are poorly trained, and people don’t like going to the stores. The FDA ruling on DMAA had a negative effect on the top 10 supplement companies, many of which lost large sums of revenue. However, nothing has come of the ruling since July, and some companies are starting to resell their DMAA products. Gyms and small businesses are starting to sell supplements at low prices, which may take sales away from the larger stores and online sales.
- “GNC sales won’t increase over the next few months to year. They will stay the same. It’s just the way the company is. People don’t like going to them. It has to do with the customer service and the guys who don’t know what they are talking about. They want you to pop pills like Skittles.”
- “We walked away from GNC a few months ago. They are just about keeping their heads above water since we dropped them.”
- “GNC clerks are bloody useless. They don’t know what they are talking about. They have very limited product knowledge. They are really just cashiers giving out uneducated medical advice.”
- “The DMAA withdrawal had an impact on some retailers. The loss of DMAA really cut into the 10 companies who received letters from the FDA. There was definitely a decline in sales. I don’t think it hurt anyone else. A lot of companies stopped making DMAA products. It hurt us. Other companies were in a lot of trouble, too, and they had to produce new products. One company had to eradicate their entire fat builder line.”
- “In Europe, you can buy products for half price online. Compared to Europeans, Americans aren’t big online shoppers of supplements. They may buy the products at their gyms.”
“The small stores, the gyms and the mom-and-pops are winning in the supplement business. They are making a push. The small-business owners are seeing this as a money-making business. A few years ago, we were deleting these companies, 100 to 400 a month. But in the past year, these new stores are all over the place. They can offer stupidly low prices. They sell products for cheaper and throw in specials, which corporate companies can’t do. GNC buys the products in bulk, and they sell it at a set high price, so people are starting to seek out the smaller stores.”

2) GNC STORE VISITS
Six of seven GNC store employees were positive regarding sales over the next three to 12 months. Five expect sales to increase, while one expects sales to be flat. The one source who was negative said sales were seasonally slow this summer and they have not bounced back as expected. He cited online shopping as the reason that sales are depressed at his store. C4 was cited as a favorite replacement by customers for DMAA products. The DMAA situation was a non-issue for most stores. The BADDASS product line is just getting on the shelves at some stores while others are not carrying it at all. Demand is light for the product.

Sales associate, GNC store, Atlanta
Sales are expected to increase across the board over the next 3 to 12 months. There is an increase in sales in the spring and late winter when people are more body-conscious. This source stated the economy is not affecting sales because customers are health-conscious. Online sales, including GNC.com, have hurt this store’s sales to a degree. The removal of DMAA has not affected sales, even though customers are aware of the issue. As an alternative, customers are purchasing C4, 1MR or DMAA-free products of brands they currently use. This location does not carry BADDASS Nutrition products.

- “We see a spike in sales in the spring and then again in late winter because that’s when people think about dieting.”
- “I think we will see increases in sales across the board. The economy isn’t affecting sales. Our customers are more health conscious—they are into preventative health care.”
- “The DMAA removal hasn’t really had an impact on our sales. Customers are buying C4 or 1MR in place of the products that had DMAA. Or they are buying brands they used to purchase that have removed the DMAA.”

Manager, GNC store, Atlanta
A spike in sales is expected in the last half of the year. Even with the sluggish economy and as more people are turning to alternative medicine, GNC sales will increase in the next three to 12 months. The source can’t say if the removal of DMAA has had an impact on sales, as they haven’t sold product without DMAA long enough. Customers are purchasing C4 in lieu of products containing DMAA. The location does not carry the BADDASS brand because of lack of space and demand. His sales have been only slightly affected by online sales. A small customer base shops online.

- “We see a spike in sales the last half of the year.”
- “Sales will increase even during the sluggish economy because more people are turning to alternative medicine.”
- We haven’t sold products long enough without DMAA to see if it has an impact on sales.”
- “The customers buy C4 or stay brand loyal and buy the same brand but without DMAA.”
- “We don’t carry BADDASS brand. One reason is we just don’t have the room for the product. The other reason is people aren’t asking for it.”
- “We have a small segment of customers that buy online. But it hasn’t been noticeable in our sales.”
Part-time sales associate, GNC store, Atlanta

A spike in sales occurs every “first of the month” when customers use their GNC Gold Cards. Sales are expected to increase over the next 3 to 12 months thanks to the store’s expansion, more inventory and better staffing. The source had not heard of DMAA or its removal from the stores. Customers are buying C4 as a pre-workout supplement. They do carry BADDASS, but sales are infrequent. Online sales, including GNC.com and other online vitamin retailers, have negatively impacted this store’s sales. GNC.com offers lower prices for their own products online.

- “The first of the month we always see a spike in sales due to our Gold Card customers. Also, we didn’t see any change in sales during the Olympics.”
- “I expect an increase in sales over the next several months into next year. We are expanding this store and will carry more products and have better staffing.”
- “Our customers buy C4 for pre-workouts.”
- “We have seen a large decrease in sales due to online sales. GNC has sales online that you can’t get in the store.”

Manager, GNC store, Southern California

This source is optimistic about current and future sales and firmly believes his particular store thrives largely on the loyalty of its surrounding neighborhoods. He says his customers are the kind of people who are fit for life. He thinks that by keeping customers loyal, they will be customers for life.

- “Sales are always pretty consistent around here. We have loyal customers, a lot of repeat business. It’s very [much a] community around here.”
- “Many customers that have taken their business online, have done so by buying through GNC online.”
- “We don’t sell BADDASS products.”
- “I kind of see GNC’s customers as fitness people—it’s just their way of life. As far as I’m concerned, sales can only go up.”

Sales associate, GNC store, New Jersey

Sales have been slow over the summer but are expected to pick up going into the fall. The DMAA issue has not been a problem. While some customers still come in to purchase products that contain DMAA, others who wish to avoid it have been able to find substitutes.

- “We have up and down times. I’ve been here for about six months. The summer was slow, but things are expected to pick up. From what I see the store is performing as expected.”
- “DMAA products were not removed. GNC filed a complaint against the FDA claiming that any hazards were noted in the warning labels on the products and won. So we still carry products with DMAA.”
“Customers are aware of the issue. Some are looking for alternatives, but many people like the way DMAA works. Some are almost addicted to it—it is just a few molecules away from meth.”

• "OxyElite Pro contains DMAA and is one of our best-sellers. Some people are substituting products such as [Cellucor’s] Super HD. It gives a similar rush and energy boost to the DMAA products.”

• “I don’t think the DMAA issue had much of an impact on our sales. The store is doing well.”

• “We are just getting the BADDASS line in the stores. It is a cool name. I hear it is supposed to be good, but I don’t know much about it yet.”

Manager, GNC store, New Jersey
Sales have been slow over the summer and are not bouncing back as quickly as expected. The Internet is a drain on business, taking even regular customers. The DMAA controversy has not affected business.

• “In June or July, I was seeing 30 customers a day. Things typically slow down over the summer, but I’m still just seeing about 15 customers a day.”

• “The Internet is killing me. People come in to the store for advice, but once they know what they want they order online. I’m not even seeing some of my regular customers. I assume they are busy with school or other things and are ordering online.”

• “The DMAA issue didn’t have much of an impact. Customers are aware of the controversy. Some people were avoiding products; others were buying in bulk when there were concerns that DMAA products would be pulled. People who didn’t want DMAA were looking for alternatives—so it’s not like we were losing their business.”

• “We just started carrying BADDASS. I’ve only sold one package of protein powder and don’t have any feedback yet. I haven’t tried it. We haven’t been given any samples yet. It is expected to be a big seller.”

3) INDUSTRY SPECIALISTS

Four of five industry specialists expect sales for GNC and the entire supplement/vitamin segment to grow over the next 12 months. One source pegged growth at 3% to 5%. Sam’s Club sales are viewed as a positive by sources as it will attract new customers and have little or no impact on the GNC stores because of the different clientele. The DMAA issue is not expected to have a major impact on GNC. Vitamin Shoppe and Max Muscle are considered strong competitors, but they will have limited impact on GNC because they are small.

Associate editor, of a nutrition business publication
GNC is on a good growth trend—up 3 to 5% over last year—and that should continue. DMAA issues should be a blip as GNC made a large amount of money on it and is now seeing increased sales of DMAA free pre-workout supplements. BADDASS should be a good way to appeal to GNC’s core customers, though they are fickle and try new products often. GNC is growing through its aggressive Internet sales and by attracting customers outside the core: older male customers and women. Vitamin Shoppe and Muscle Max are fast-growing competitors, but both are much smaller.

• “GNC is going to be on a pretty sustainable growth track from my perspective. If you look at the track of the supplement space in general it had one of the best growth years last year: about 7%. It’s a matter of the entire space being lifted and GNC is reaping the benefit. Sports nutrition is one of the hottest growth categories, especially protein products and GNC has those.”

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Associate Editor
Nutrition Business Publication
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- "I would say that Internet retail is probably growing the fastest for GNC—if I have to put a number on it I would say 3% to 5% over last year. But this is a [$1.5 billion] company. I’m not smart enough to tell you quarter over quarter."

- "My thinking is DMAA is a blip as GNC made its money on DMAA and will phase out of selling it because it’s becoming a liability."

- "Internet retail could be a threat. There are definitely some low-cost players, but GNC is one of them. I think their fastest-growing segment for GNC is online and there is a lot about their retail model that means that you don’t move as many products through the retail store. The person buys it in the retail store the first time and then buys it online."

- "BADDASS is a sports nutrition line. I’ve seen them here at Expo East. It’s targeted at their core audience. It’s a fairly smart move. I don’t think it’s going to blow up sales. They move from sports nutrition line to sports nutrition line pretty much every year. It’s a category where you can launch a new brand and sports nutrition enthusiasts are fickle and so it will probably gain traction, but I don’t know how it’s going to pop."

- "Depending on the audience, the Vitamin Shoppe has a better focus on total nutrition, not just on sport and that there is a differentiating factor. They’re a competitor but they’re smaller than GNC and they are growing faster but off a smaller base. The Max Muscle franchise is interesting; a more highly educated sales staff and a cleaner product line, but that’s smaller than GNC."

- "The goal for GNC is getting beyond the young bodybuilding men and getting more men in their 40s and 50s and trying to bring more women into the store, too. I think they’re being successful so far and it’s of an increasing focus. ... They’ve had very strong traction at GNC."

Associate Editor
Nutrition Business Publication

Sales consultant for alternative pharmacy

Sales at GNC and other alternative health stores will continue to grow. GNC, known for heavy-handed selling tactics and high prices, is still popular locally. People are turning to alternative health stores as a supplement to traditional medicine. This source does not recommend or sell DMAA products. Sam’s Club is also popular and maybe a good way to introduce GNC products to new customers. Online sales are popular; they may cut into a store’s sales, but the money still goes to corporate.

- "GNC and the other stores will keep growing over the next few years. The trend is huge in the supplement market."

- "More and more people are turning to alternative health care sites, like ours or GNC. People are starting to understand that conventional medicine is not complete. Health is not based just on drugs. Nutrition is important."

- "GNC has heavy-handed sales tactics and high prices. The GNCs in town have a lot of shoppers, but I think most people come here."

- "We don’t recommend DMAA products to our customers. Some retailers have been affected, but I heard that GNC still sells DMAA."

- "Sam’s Clubs are very popular here, and GNC might sell a lot of products, especially for people who go to Sam’s Clubs and not usually GNC."

- "Everyone shops online, even for our products. It’s an easy way to go. GNC corporate still earns their money."
Jay Jacobowitz, president and founder of Retail Insights, Vermont
This source looks at real estate and store space as a judge of business success. GNC-franchised stores are located in better real estate areas than their corporate stores. Vitamin Shoppe has more expensive real estate. Online sales are pressuring all stores.

- “Bodybuilding must remain core to the GNC approach, as long as it takes up one-third of a store’s space, give or take some.”
- “GNC’s real estate quality [household demand potential] is the best for GNC-franchised units. It is lower for the corporate units, which outnumber the franchised units by many times.”
- “Vitamin Shoppe has better [more expensive] real estate in general. Compare Walgreens to Rite Aid or CVS as an analogy.”
- “Online discount sites pressure all brick-and-mortar models including GNC.”
- “In 2012, natural and organic products account for more than $50 billion in U.S. retail sales.”

Managing director, supplement certification organization
Growth is expected in all areas of the supplement industry. Brick-and-mortar retailers, big-box retailers, online retailers and the direct selling companies are all expected to see growth. This certification organization sees little impact to retailers from the warnings against DMAA, and neither Vitamin Shoppe nor GNC has marketed their own private-label brands of DMAA supplements. Online stores have their strengths, but, the brick-and-mortar stores offer in-person expertise with which the online retailers cannot compete. At present, the organization certifies numerous Vitamin Shoppe products for being free of banned substances, but no GNC products.

- “[RE: Brick and mortar versus online:] The physical stores are still going strong. If you go into a brick-and-mortar store where consumers are buying product, the retailers go through an education process. You don’t get that online; you have to do your own research. And look at the market trends for dietary supplements.”
- “As a category there’s growth across the board, with direct selling through, for example, Amway and Herbalife.”
- “There’s even a still small subset of loyal customers for small businesses like a local health food store, they’re still doing well; they’re not a Vitamin Shoppe or GNC, but one-off stores selling local to consumers.”
- “Another area that’s helped in overall sales growth of supplements are the big-box retailers. Go into any major grocer or chain drugstore, you’ll have private label and other products. It’s a category of product that’s seeing more mainstream delivery versus the mom-and-pop health food retailer.”
- “Our organization has done a lot of work and research into the safety and toxicology side of DMAA.”
- “Currently, the area that would impact retailers most is products being changed, and stock-keeping units [SKUs] being changed on store shelves. But it is important to note that GNC and Vitamin Shoppe haven’t had any private label or store brands that contained DMAA. So the direct impact may be more some negative mention against the category as a whole.”
- “I’m not terribly familiar with Sam’s Club or its internal workings. But GNC has a large contract manufacturing business out of its facilities.”
- “Vitamin Shoppe created a specialized sports nutrition line called True Athlete which we certify and test to be free from banned substances. So for professional sports organizations, military personnel, police and other professionals who may be screened, we test those to make sure all are clean and tested batch by batch. The Vitamin Shoppe has really stepped up.”

Bodybuilder and former nutrition store and gym owner
Sales over the next three to 12 months will follow normal seasonal cycles, staying the same in the next three months, going up in six months and staying the same at 12 months. Vitamin Shoppe has better-educated sales staff and is more community-minded. GNC isn’t terribly pushy, but their salespeople are poorly informed. Seasonal changes occur as
people stop taking workout supplements around Christmas and then get back on program afterward in spring. Sam’s Club will be neutral as it’s not the same clientele.

- “I expect sales for the next three months to be about the same, [in] six months they will increase. In 12 months [it] will be same as it was at six months.”
- “Limited product knowledge. They just don’t really know what they’re doing.”
- “I wouldn’t say they discourage sales, but there are a lot of options out there.”
- “It’s neutral on Sam’s Club. I don’t think a lot of people from Sam’s Club will buy from GNC. I don’t think it’s the same client.”

4) CUSTOMERS

Four GNC customers expect to continue buying at the same and possibly increased levels over the next 12 months. GNC’s reasonable pricing and convenient store locations were cited as positives. Two of the four customers had heard of the BADDASS Nutrition product line but do not use it. Shaklee Corp. and Costco Warehouse Corp. (CST) are where the two non-GNC customers shop for supplements. The Shaklee customer said she could not find what she wants at GNC and the Costco customer admitted he is giving up selection choices for a lower price. One GNC customer said online shopping will impact GNC as people go for low price over quality.

► 18-year-old wrestler from New Jersey

Pricing and convenience make shopping at GNC an easy choice for this customer. He has found the salespeople to be helpful, not pushy, and plans to continue shopping at GNC.
- “I started shopping at GNC last fall. I’ve shopped at GNC two or three times over the last year.”
- “I don’t see anything wrong with the sales tactics.”
- “I haven’t shopped around much—so don’t know how the prices compare. I haven’t looked at the powder online. The location of the store is very convenient for me.”
- “I’m not interested in products that have DMAA. I’ve heard about it and wouldn’t want to use something that’s more like a drug than a protein or a more natural supplement. Most people I know would avoid DMAA—but some guys do look for ways to speed up results.”
- “I wrestle and have been looking to bulk up. They’ve recommended some products to use that have been helpful—a protein powder.”

► Woman in her late 20s, suburb west of Atlanta

This customer shops at GNC once a month and has remained consistent for the past year. She will be spending the same amount of money over the next three to 12 months. She buys the same product every month and feels GNC prices are reasonable and never felt pressured to buy a certain product. The customer was unaware of the DMAA issue and had not heard of BADDASS products. She feels online sales of vitamins and supplements will affect GNC because people go for price over quality. If she had a membership at Sam’s Club she would definitely purchase GNC products there. She believes in the short term that sales will decrease at GNC, but will increase closer to summer.
- “I shop at GNC once a month.”
- “I’ll spend the same amount at GNC over the next year because I buy the same product every month.”
- “Yeah, I think their prices are reasonable. The sales staff has never pressured me into buying anything.”
- “I’ve never heard of DMAA or their BADDASS products.”
- “Yes, I think online shopping will affect GNC because people go for price over quality.”
- “Sure, if I had a membership at Sam’s [Club] then I would buy my GNC products there.”
- “In the short term, GNC sales will decrease. But closer to summer they should increase.”
GNC female shopper, late 30s, Southern California
She claims she’s not brand loyal, but she is loyal to shopping at GNC. She’s recently become employed which allows her to get back on track with her nutritional purchases. Although she knows it’d be prudent, she’s never taken the time to get price comparisons.
- “As long as I have work, I’ll make regular trips here. I like their product selection.”
- “I’m ashamed to say I’ve never really price compared. I’ve heard I could get them at a lower price online but for me it’s more convenient to just stop to get what I need.”
- “I’ve had them push the GNC brand a couple times by comparing its ingredients to whatever I was looking at—but they haven’t pushed it much beyond that.”
- “I’m not really brand loyal, I easily accept substitutes if they’re out of one product.”
- “I’ve never purchased online, so I guess I’m GNC’s dream customer—but I’m sure it’s had to have hurt their sales. Unless they sell online...hmmmm.”
- “I’ve never tried the BADDASS brand, but I must say I’ve heard people talking about it. It’s the name that triggers the conversation.”

GNC shopper, male in his late 20s, Southern California
Regular customer spends $30 to $450 per month and plans to continue. He finds pricing acceptable and likes the occasional product sales and promotions.
- “I stop here a couple of times a month.”
- “I probably spend $30 to $50 per month, and I’ll spend more if there is something I find that I need regularly.”
- “GNC’s prices are acceptable. I guess it’s the sales they have here and there that seem to even it all out.”
- “I think salespeople only bug you if you let them think they can.”
- “I use C4 now. I don’t want the other stuff if it’s bad anyway. No big.”
- “I’ve heard of BADDASS, but I don’t know anyone who uses it.”
- “I suppose one day I’ll check to see how much I could save by going online. I just haven’t yet.”

Non-GNC customer, male late 40s, Southern California
He seems content with purchasing the vitamins he needs at Costco. He claims to know he is giving up on a “wonderful” selection of products, but at this point it’s just not important enough to him. Also, he has never perceived GNC as having inflated prices, but he knew he could safely assume he could buy them for less at Costco.
- “I’ve been to GNC maybe three times in my whole life.”
- “I just don’t have an ongoing need for their products specifically.”
“Frankly, I can get what I need at Costco and spend a whole lot less.”

“One thing I know is that GNC has a wonderful selection. You kind of give that up by shopping at Costco.”

“I never thought GNC’s prices were astronomically high—just too high for someone like me who isn’t so picky about what he’s buying.”

“Naw—I don’t let those salespeople get to me. They’d never be what keeps me out of the store.”

One thing I know is that GNC has a wonderful selection. You kind of give that up by shopping at Costco.

Non-GNC Customer
Southern California

5) TRAINERS

None of the four trainers interviewed buy products from or recommend that their clients buy from GNC. Their consensus is that online competition is escalating for GNC. Competition is also coming from Whole Foods, chiropractors, trainers and Trader Joe’s. Teens and young adults just getting into working out are a prime demographic for GNC and one source said the BADDASS brand will appeal to this age group.

Independent personal trainer

The source did not have insight into how GNC’s sales would fare in next three to 12 months, though he thinks online competition has decreased store sales. He used to shop at GNC for protein powder or sleep products and would spend $10 to $40 per visit. He doesn’t shop at GNC any longer as his education has led him to believe that many of its products are unnecessary if the diet is balanced. He advises clients against purchasing supplements unless they are prepping for a bodybuilding competition. GNC has plenty of competition from cheaper online stores.

“I rarely shop there now. I used to. I used to spend about $10 to $40 on Valerian root or protein supplement.”

“I probably will not shop there anymore.”

“Of the clients I’ve talked to, none of them shop there because I’ve told them not to. I advise against it.”

“I don’t recommend supplements to any of my customers. The only time I recommend it is if somebody is doing a bodybuilding competition.”

“GNC they have decent products, but you can buy the same thing online cheaper.”

“GNC is not the only place; there are other stores that sell the same stuff.”

“Because for the average person, supplements are provided in your diet. Vitamins are not necessary. If you need them you’re not eating properly. You should get everything in your meals.”

“If you’re constantly taking meal replacements then you’re not healthy. Once in a while these things are OK.”

Owner of a fitness boot camp and personal training center

GNC draws a younger teenage crowd that is into sports nutrition and muscle building. The new BADDASS brand will cater to that crowd. Middle-age and older people tend to buy supplements at Whole Foods and Trader Joe’s, online or from their own chiropractor. They may also buy supplements from their personal trainers, who get a commission. Professional trainers do not recommend GNC to their clients because the GNC clerks aren’t well trained. People in the general population tend to be weekend trainers.

“I’m not dialed in enough with GNC to tell you how their business will do in the near future. I know my son will continue to buy their products. His habits will stay the same. I don’t see that changing.”

“My son is 18, and he is into sports training and muscle building. He buys the large nutritional supplements at GNC every three or four months, and he goes to the local store. He spends about $61 each visit.”

“I don’t shop at GNC, and I haven’t been in their store for years. And I don’t recommend GNC. We represent a complete product line from another company, and we sell those products when appropriate. I do make a small commission on them.”

“The average age of my clients is 43 years. Most of my clients buy nutritional products at Whole Foods, Trader Joe’s, online, or their chiropractor’s office. They are more upscale and less likely to buy at GNC.”

My son is 18, and he is into sports training and muscle building. He buys the large nutritional supplements at GNC every three or four months, and he goes to the local store. He spends about $61 each visit.

Owner, Fitness Boot Camp & Personal Training Center
“The teens shop at GNC. It is the first stop when you are on the young side.”
“The professional trainers whom I chat with online, from what I hear from my colleagues, they tend to not promote GNC. Folks behind the counter at GNC are more sales-driven and not well trained.”
“BADDASS fits the younger demographic of GNC. It sounds like something that would attract them, but not my older clients. I might have seen the products recently advertised on a GNC flyer.”

Certified personal trainer
This trainer does not shop at GNC, nor does she steer clients there. She reports that GNC’s vitamin products are perceived to be lower quality than Whole Foods and providers like Solgar. Price seems to be not much a hindrance to the athlete interested in nutrition, and bodybuilding clients are more interested in muscle-building protein supplements than in preworkout supplements such as DMAA. There is an increasing concern among amateur athletes about the long-term effects of brands—hence a drive toward basic nutrition through diet and back to the basics like multivitamins and probiotics.
“I never go to GNC. The feedback I get from nutritionists is that it may not be the highest quality, you’re better off with a private supplier or Whole Foods.”
“It seems that more of the registered dieticians say that. I’ve read articles saying that multivitamins can be very similar across the board, but trained professionals tend to recommend things from Whole Foods or more upscale nutritional stores.”
“I have a very upscale clientele that tends to buy from Whole Foods and Solgar in terms of vitamin choices.”
“I have had a lot of questions about protein powders, not so much about preworkout supplements.”
“More people are choosing to get their nutrition by food. There is a concern as to whether or not nutrients in supplements are as effective as [they are] from whole foods, and a growing concern around the long-term effects of supplements on their digestive systems. So knowing that across the board, it makes me wonder if people won’t buy less supplements.”
“But I’ve been in this business for 14 years, and it seems like more people are concerned about nutrition and whether or not they’re getting proper nutrition, and they’re more likely to take that multivitamin, the probiotics, the iron, if they don’t feel like they’re diets are fulfilling those needs. It could go either way.”

Personal trainer
This trainer observes that most of his clients shop online. He was unaware that GNC has an online presence but believes that GNC must succeed online or create a mobile app to encourage sales, rather than rely on its brick-and-mortar stores. DMAA is a niche product, and removing it from shelves is unlikely to do retailers lasting harm.
“I don’t shop at GNC personally.”
“Protein is more popular than the preworkout supplements for the bodybuilders.”
“I don’t see a big demand for DMAA, honestly. I never did. It was kind of a niche thing. So I doubt that’s going to bring any store to its knees.”
“I think most of my clients shop online because they can find it cheaper there. And a lot of them tell me they just don’t have the time to shop. They have time to go to the gym but not to shop.”
“I think a lot of these stores, with storefront properties, are going to be taken over by the Internet someday. Amazon has a warehouse space and doesn’t have to be out front like a GNC. If you can get products online for cheaper and you can wait a couple of days, you’ll do that. Unless GNC goes on the web or mobile, you’ll see them losing ground in the industry.”
“GNC’s bigger among men than women. I know that from my clients.”

Secondary Sources
A review of secondary sources revealed that the supplement industry is expected to grow at a rate of 7% in 2012 despite a troubled economy. GNC continues to add new products with the addition of a new endurance and recovery drink inspired by...
U.S. Special Forces. Finally, GNC.com is experiencing growth with the acquisition of LuckyVitamin.com and increased second-quarter online sales.

- **Sept. 20 post** on nutraingredients-usa.com
  A report from Package Facts pegs supplement sales for 2012 at $11.5 billion and predicts sales will grow to $15.5 billion by 2017.
  - “Supplement sales across the U.S. have shown strong, steady growth in the face of economic uncertainty, posting a 7% gain in 2012, according to a new report.”

- **Sept. 6 post** on bevnet.com
  GNC continues to add new products to its stores and online marketplace. An agreement with the Kill Cliff brand to become the first nutrition retailer to distribute the Recovery Drink will bring a new endurance and recovery drink to GNC customers while also contributing to the founder’s military charities.
  - “The Recovery Drink, a lightly carbonated beverage uniquely formulated with premium recovery supporting ingredients and electrolytes, is now available at GNC stores nationwide as well as online at GNC.com. A former U.S. Navy SEAL created this groundbreaking drink aimed at helping those recovering from strenuous exercise and physical exertion. Kill Cliff represents a new class of beverage that meets the endurance and recovery requirements of the fittest.”
  - “With the introduction of Kill Cliff at GNC, the partnership will include a comprehensive calendar of co-marketing initiatives at the store level, at select events and in support of charitable causes. In keeping with Kill Cliff’s roots, one of the main driving forces behind the company is the goal to give back to military charities.”

- **Sept. 5 post** on NewHope 360, a healthy lifestyle digital marketplace
  Competition is expected to increase for GNC as Japanese nutrition companies hit the United States.
  - “According to Japan-based market research and consulting firm Global Nutrition Group, FOSHU [Food for Specified Health Use] sales are on the wane, shrinking 2 percent in 2011. The U.S. functional food market, by comparison, grew 8 percent last year. Major FOSHU players are apt to follow the dollars to more receptive markets.”
  - “Japanese manufacturing enjoys a reputation for quality stateside, both in technical expertise and in accountability. Unlike China, which holds a less-than-sublime status among U.S. consumers and business owners, Japan has a story of quality, innovation and good design that would resonate well in the United States.”
  - “Companies like Maypro, Kaneka and Kyowa Hakko have already made the leap, and they maintain good standing in the U.S. market. Keep your eyes open for more Japanese companies at Engredea and SupplySide next year. The new wave is coming.”

- **Aug. 6 post** on Internet Retailer
  GNC online sales were up 28% in the second quarter. The purchase of LuckyVitamin.com added $14.1 million in online revenue.
  - “[GNC reported] sales on GNC.com of $24.9 million, a 28.4% increase from $19.4 million for the same period in 2011. In addition, LuckyVitamin.com, which GNC acquired Aug. 31, 2011, contributed $14.1 million in online sales for the second quarter of 2012, bringing the company’s total online sales for the quarter to $39.0 million.”
  - “E-commerce sales comprised 4.0% of total sales and 5.4% of all retail sales for GNC during the second quarter, compared with 3.7% and 5.0%, respectively, last year.”

Additional research by Dann Maurno, Maria Hunt, Renee Euchner, Debbie Moss, Cindy Elsberry and Maggie Purcell

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