

CORPORATE CHALLENGE 2014

Herbal Destination, Inc. [case study]

TRADITION, TECHNOLOGY AND INNOVATION
 The mission of Herbal Destination is to innovate, manufacture, and market the finest quality herbal



Sales Strategy

★★★★★
 Should we use a direct sales force or agents? Should we compensate them and how?

- Demand
- Supply
- Distribution



Social Media

The Herbal Destination Facebook page has 1,800 likes and the company would like to increase the number of likes significantly.

Merger Opportunities

★★★★★
 Find suitable companies to work with as affiliates or partners.

Product Development

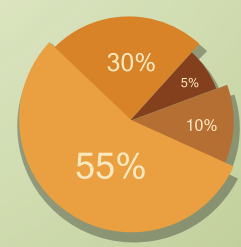
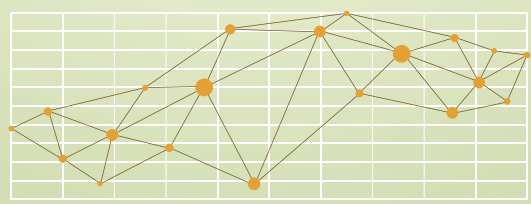
★★★★★
 Key strengths of Herbal Destination are product development, technical know-how, supply chain, flexibility and ability to offer all natural premium products.

Marketing Plan

★★★★★
 Develop a marketing plan, which you believe will help Herbal Destination in significantly increasing revenues?

Increase Revenue

The major objectives of this case study are to develop specific strategies and prepare an action plan for Herbal Destination to dramatically increase its revenue



Herbal Destination, Inc.

Bharathi and Shaker, the co-founders of Herbal Destination, Inc. (corporate name Eximus connections), had just returned from a potential sales meeting with a large retail chain. The chain may offer shelf space to the product only if the packaging can be changed slightly to reduce the horizontal foot print per package while increasing the vertical foot print. They will need to go back to their supply chain partner and get the packages re-designed with the hope of selling to this retail chain.

After another meeting, with Whole Foods, they reformulated their skin care products to eliminate Parabens so that they can meet 100% of the Whole Foods Acceptable Ingredients Standards. After numerous other meetings with distributors and after extensive research, Bharathi and Shaker have now finalized on a set of core products for Herbal Destination.

After earning an undergraduate degree in Agriculture and an M.B.A. in finance, Shaker's first entrepreneurial venture was Logicare/Resilien a company engaged in buying and selling personal computer components. Shaker and his partners were able to increase the sales of this venture from \$1 million in 1995 to over \$390 million in five years. Bharathi has over ten years of experience working as a computer programmer for Young & Rubicam. However, both Shaker and Bharathi passionately believe that the herbs used in ancient Ayurvedic medicine can help the modern society in coping with several ailments. Shaker and Bharathi, along with other partners Sharvani Srinivas and Julie Solomon, have invested over four years and \$300,000 in designing, formulating and developing Herbal Supplements and Skin Care and pain relief products for marketing in U.S.A.

Herbal Destination Inc. utilizes the resources of two nationally known firms in India, specializing in formulating, manufacturing and testing herbal products. Herbal Destination has developed relationships with two distributors in U.S.A.

who handle product inventory, shipping to retailers and e-tailers. Herbal Destination also has a presence on the Internet through its Web site with e-commerce capability, Facebook, and Twitter accounts.



One of the key opportunities for the growth of Herbal Destination has been presented by the growing trend in the U.S.A. of embracing the natural and holistic life style. Herbal Destination is poised for reasonable organic growth using the current marketing strategies. However,

Shaker and Bharathi believe that a new marketing strategy is needed to achieve rapid growth. The new strategy could involve merger/alliance with a large established marketer in this market, developing its own direct sales force to reach the retailers, or building a multi-tier agent sales force.

History

- 1983–1988** Shaker comes to Alabama A&M University as a graduate foreign student. Bharathi comes to U.S.A. also as a foreign student in 1988.
- 1985–2008** Shaker, after earning an M.B.A. in Finance and Marketing, moves to New York City and starts working as a Business Systems Analyst for a computer company. In 1986 he started working for a national computer franchise called Microage. In 1995 he joined, as a junior partner, a computer distribution company called Logicare/ Resilien. Finally, he moved on to a family owned IT and marketing consultancy business. Bharathi, in 1988, starts working as a Computer Programmer in a Long Island firm and then continued to go on to work for Young & Rubicam, a large advertising firm on Madison Ave. She took a sabbatical for a few years and then started to work again as a Systems Analyst for a couple of consulting companies.
- 2009** Shaker and Bharathi join Sharvani and Julie to incorporate Herbal Destination, a herbal supplements company and start searching for suitable manufacturing partners in India in addition to a distribution network in U.S.A. Two suppliers were selected in India to begin formulating age old formulas for the U.S.A. market.
- 2010** Herbal Destination starts test-marketing products in U.S.A. using the Internet.
- 2012** Herbal Destination starts with one distributor, Select Nutrition, a wholly owned subsidiary of UNFI. The company reduces the number of products from 14 to 9. Packages are redesigned so that each has the same color scheme to create an identifiable brand. The company starts selling in the North American market.
- 2013** Herbal Destination adds one more distributor in the West, Threshold Enterprises, and continues to tweak the product mix.

Herbal Destination products will be described briefly later. For more details go to www.Herbald.com

Mission and Guiding Principles

The mission of Herbal Destination is to innovate, manufacture, and market the finest quality herbal blends that address the principal elements of human health safely and effectively. The company creates these fine quality products by combining ancient Ayurvedic wisdom with modern scientific knowledge at their state of the art, GMP and ISO 9001 certified facilities in India.

FTIR ANALYSIS:

All of the Herbal Destination products have unique identifying formulas. Each batch of ingredients endures rigorous quality evaluation including a Fourier Transform Infrared Spectroscopy analysis (FTIR) - Fingerprinting of ingredients and of finished products. This guarantees that the product quality will be the same batch after batch.

VEGAN CERTIFICATION:

All Herbal Destination products are certified vegan and do not contain meat, fish, fowl, animal by-products, eggs or egg products, milk or milk products, involve no animal testing of ingredients or finished product by supplier, producer, manufacturer or independent party, and contain no known animal-derived GMOs or genes used to manufacture ingredients or finished products.

Herbal Destination's strategy is to blend only the finest quality products for customers who are willing to pay a premium price for building and sustaining a level of health to enhance the quality of life.

Herbal Destination believes in the holistic value of authentic herbs and plants. These are grown in time tested soils, free of pollutants and contaminants. The partner companies have developed herbal gardens to make sure the endangered herbal species of great value are protected for generations.

FDA and Regulatory Environment

The US FDA is the premier authority that regulates all Food and Supplement products in U.S.A. The common question that people have is "Are the products FDA approved?" The simplest answer is a "No". The US Food & Drug Administration does not approve or endorse any herbal supplement products. All supplement manufacturers are required to adhere to the standards for the active ingredients in all products, any health claims made, as required by the FDA and follow Good Manufacturing Practices (GMP[®]) guidelines that are required.

Supplement Industry and Competition

The market for nutritional products and supplements, including vitamins, is estimated to be over \$30 billion per year in U.S.A. It is difficult to isolate the size of the herbal supplement market from that of the commonly used vitamins. Many manufactures of vitamins also manufacture or resell supplements. Most of these manufacturers have priced their products at a relatively low level to appeal to the mass market. Herbal Destination focuses only on manufacturing very high quality 100% pure premier products and the target market is not price conscious consumers but educated and well informed consumers who see value in using all natural herbal products. The examples of some of the Indian herbal companies that compete with Herbal Destination are: Himalaya USA, Banyan Botanicals, Dr. Chopra, etc.

Herbal Destination Products

Begining the year 2009, Herbal Destination has been engaged in developing suppliers and products which are consistent with the core values and the mission of the company. Two manufacturing facilities in India were selected along with a team of personnel to assist in the manufacturing process. A set of fourteen different products were developed in 2010. After extensive test marketing, Herbal Destination has decided to market six herbal supplements, two skin care products and one pain relief topical oil, in the U.S.A. All products have proprietary formulas and the actual combination of the ingredients is a trade secret. A brief description of one product is given below.



History of GlucoSuprs HRX

- *Bhavprakash Nighantu (16th Century) – Gymnema sylvestre and Salacia used to control excessive urine.*
- *Dhanwantari Nighantu (10th Century) – Trigonella foenum graecum useful to tone up metabolism .*
- *Charak Sutrastan (ca 100 AD) Chapter 27 – Eugenia jambolana useful in Diabetes.*
- *Kaydev Nighantu (15th century) – Momardia charatica reduces increased blood sugar level and tones up the function of Liver.*
- *Sushrut Sutrastan (ca 900 AD) Chapter 46*
- *Charak Vimanstan Chapter 8, Ashtang Sangrah (8th Century)*
- *Ayurved Vidyan*
- *Nighantu Ratnakar (18th Century)*

GlucoSuprs HRX: GMS 315 Gluco Complex™ for blood sugar support: Also supports pancreatic health, boosts immune function, and helps against occasional fatigue. It blends six ingredients. One of the ingredients is bitter melon. Bitter melon reduces increased blood sugar levels and tones up liver function, but might induce gases in some people. Hence, fenugreek is added to neutralize this condition. In essence, all the products are carefully formulated to work efficiently for all people. Due to infrastructure challenges, mobile devices are extremely prevalent in these economies, and any telecom management solution will be very closely associated with mobility solutions.

Marketing

Herbal Destination started the marketing process by making sales presentations to large retailers/resellers such as Whole Foods, Walgreens, Nature's Bounty, and Natural Organics. All these companies expected the manufacturer to have a large advertising

budget (\$100,000 to \$250,000) for each product without any guaranteed sales commitment. The company also tried some print and traditional media advertisement. Due to the specialized nature of the products targeted to a niche group of health conscious customers, the traditional form of advertisement yielded poor results. Herbal Destination then selected social media as the primary marketing tool.

Segmentation, Targeting, and Positioning

The target market segment for Herbal Destination consists of people who believe in alternate remedies using natural ingredients versus traditional medicine, who have above average income, and who are 30 years of age and older. In essence, the company is targeting the consumers that buy products from health food stores and specialty stores. Commercial establishments like CVS, Walgreens are currently not on the radar as they generally sell inexpensive solutions and the premium products will have limited opportunities in these outlets.

Price, Promotion, and Distribution Channel

Herbal Destination products are considered to be high-end or premium (retail price ranges from \$20 to \$25). Distributors typically keep 15% of the 45% discount they get from Herbal Destination and pass the 30% to the retailers. In certain

instances the retailers get additional discounts up to 10% when approved by Herbal Destination. The distributors in this industry require that the manufacturer deploy a broker to work with them. Brokers typically get 10% of sales amount that is sold through a distributor or \$1,000 a month (whichever is higher) for each of the manufacturers that they represent. Currently the products are distributed through Select Nutrition on the East Coast and Threshold Enterprises in the West Coast. Herbal Destination might be adding more distributors such as Palco, KeHE in 2015.

A customer visiting the website of Herbal Destination can purchase the product directly from the company using a safe encrypted payment system or the customer can go to the retailer or e-tailers to place the order. Some of the retailers are Swanson Vitamins, iHerb, Lucky Vitamin, 4allVitamins, Amazon.com, and Rakuten.Com. These organizations and other retailers send their orders to the distributors for processing since the company does not prefer to sell directly to any retailers. If the company deploys direct sales personnel in the future, the orders will most likely be still processed by the distributors who are used to handling deliveries, credit extension, accounting, and returns from the retailers. The selling price to the end-user could be same, regardless of the outlet.

Internet and Social Media Presence

As mentioned before, Herbal Destination is actively involved in using social media as the promotion tool. The company has over 1800 people liking the Facebook page and over 700 followers on Twitter. Ideally these numbers should be significantly higher and the company is working to achieve this goal.

In social media setting, Google ad words, Facebook and Twitter are used to place ads that are tailored to a specific group of people. For example, products are advertised to those people who have done Google searches using key words like Turmeric, Stress relief, blood sugar support. In Facebook, the targets are the groups of people that are members of certain organizations. For example, the Memory Hrx product is targeted to people that are members of AARP Facebook page. In the case of Twitter, the ads are targeted towards followers of Dr. Oz, Dr. Mercola and others that talk about health issues.

Herbal Destination also uses Constant Contact as a means to maintain customer relationship and to support existing customers by offering coupons, discounts etc.



Operations and Staffing



Herbal Destination currently has five employees in USA, including partners, a brokerage firm that specializes in getting the company new opportunities via new accounts and also a support staff of six people in India. The company does not encourage sales via telephone and prefers to do most of the work through the web site and through distribution and sales partners. The team in India consists of Ayurvedic Doctors (Vaidyas), Bio-Chemists, Product Development Executives, Production Managers, Quality Controllers, Scientists, Engineers and Herbalists. The partner company is committed to sustainability by using wind turbines for their energy requirements.

Why is Herbal Destination different from others?

Herbal Destination remains true to the traditions and commits unwavering dedication to the ancient written wisdom of Ayurveda, all the while, verifying purity and quality with the most modern scientific and analytical methods available. For example:

- **GlucoSuprs Hrx** is a faithful interpretation of the ancient Ayurvedic renderings for the treatment of blood sugar imbalances found in the texts shown on the right.
- Ayurvedic research universities, as well as others, have time and time again proven the usefulness of these herbs.
- Ayurveda relies on controlling energy imbalances in the body (Doshas).
- **Vata Dosha** - Energy that controls bodily functions such as blood circulation, breathing, blinking, and heartbeat.
- **Pitta Dosha** - Energy that controls the body's metabolic systems such as digestion, absorption, nutrition, and body's temperature.
- **Kapha Dosha** - Energy that controls growth in the body. It supplies water to all body parts, moisturizes the skin, and maintains the immune system.

Herbal Destination products address the Doshas in a scientific fashion and have been proven to be effective for all body types in several clinical trials.

Why should someone partner with Herbal Destination?

Generally most manufacturers or large distributors carry products in categories like Amino acids, Anti-oxidants, Diet products, Mood Enhancers, Sleep Aids, Vitamins and minerals and Protein Shakes etc. Any and all manufacturers and reseller of herbal products that typically have \$50M or more in sales are potential partners, since a premier "Ayurvedic" line with 100% natural ingredients would add value to their portfolio.

Financials

Table 1 shows the approximate revenue of Herbal Destination for 2013 attained by different distribution channels and Table 2 shows the approximate breakdown of revenue by product lines. Table 3 shows approximate breakdown of expenses for the year ending December 31, 2013.

Herbal Destination had focused more on product development 2012. It has only been a little over a year since Herbal Destination has finalized the core set of products and has been involved in marketing the products. Also note that many smaller orders received directly by Herbal Destination are passed on to the nearest retailer for processing to gain operational efficiency. Another important point to note is that the Herbal Destination website provides direct links to retailers and e-tailers. It is difficult to identify customers who may have first come to Herbal Destination Website by seeing the ads on Facebook or Twitter, and then went to the e-tailers to buy the product. All such customer revenues have been placed within the distributor category in the table 2.

Table 1 – Total Revenue by Channels		Table 2- 2013 Revenue by Products		Table 3- 2013 Expenses	
Distribution Channel	Revenue in \$	Category Description	Revenue in \$	Category Description	Expenses in \$
Distributors	\$95,000	Supplements	\$80,000	Cost of Goods	\$30,000
Web; Misc. Sales	\$25,000	Skincare	\$35,000	Media and Promotion	\$20,000
Total Revenue for 2013	\$120,000	Pain relief	\$5,000	Distributors and Brokers	\$15,000
		Total Revenue for 2013	\$120,000	Overhead (Rent, Misc.)	\$40,000
				Total Expenses for 2013	\$105,000

Discussion Questions

All student team leaders should contact Dr. Raj Tibrewala tibrewal@nyit.edu for additional information. All questions and additional information will be shared with each team. If necessary, a group meeting will be arranged where all student groups can meet and ask questions.

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The major objectives of this case study are to develop specific strategies and prepare an action plan for Herbal Destination to dramatically increase its revenue. As outlined in the case, the key strengths of Herbal Destination are product development, technical know-how, supply chain, flexibility and ability to offer all natural premium products. The weaknesses are lack of own sales force and the current penetration in the US market. All student teams should keep these strengths and weaknesses in mind while answering the following questions. The key to winning this competition is collecting data from primary sources and defending your recommendation by showing test marketing results.

1. Discuss pros and cons of the Herbal destination website www.Herbald.com. The Herbal Destination Facebook page has 1800 likes and the company would like to increase the number of likes significantly. Twitter ([herbaldNY](https://twitter.com/herbaldNY)) has 750 followers that receive links related to Health and natural well-being articles. How can Herbal Destination attract more potential customers to visit the website and leverage its presence in social media?
2. Herbal Destination is in the process of deciding if they should hire sales personnel predominantly compensated on a commission basis plus a small base pay to sell directly to Health food stores, Yoga centers, Health Clubs and other Retailers. What are the main impediments in selling directly? (Each student team will be given a complete set of product samples and product brochures to gain first-hand experience). How can Herbal Destination overcome these impediments? How many direct sales individuals should be hired and what compensation structure will make the most sense.
3. Some of the companies in this category have built multi-tier marketing networks. Does it make sense for Herbal Destination to use this model? Please discuss the pros and cons of doing so. If your team recommends this strategy, please develop an action plan including best approach to recruit super agents, agents, sub-agents.

4. Some of the major players in this industry have been mentioned in the case study. Herbal Destination is willing to take on a partner who has a strong foothold in nutritional supplements and who is interested in augmenting their existing product line by carrying Herbal Destination products. Can you identify a possible partner.

5. Develop a marketing plan, which you believe will help Herbal Destination in significantly increasing revenues?

Herbal Destination brings tradition, technology and innovation together.





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