General nutrition companies inc

Business, Industries

General Nutrition Companies Inc. , was founded 65 years ago in Pittsburgh, Pennsylvania on the premise that Americans wanted to maintain control over theirhealth. David Shakirian founded the company. In 1935 he launched a dream of his by establishing a little healthfoodstore in Pittsburgh, Pennsylvania. He called it Lackzoom. The products that were offered at his store included yogurt and healthy foods such as honey, grains and healthy sandwiches. The concept of being a health store and serving health food was thought to be a fad that would soon pass over back then.

To the surprise of many of Shakarian's critics, many people embraced Lackzoom. David and his store came a long way from its first day" s receipts of 35 dollars to open a second store six months later. Since those first two stores, Lackzoom, which is now GNC, has grown to be the largest manufacturer of vitamins and mineral supplements in the United States (1998 Annual Report). General Nutrition Companies, Inc. , collectively with its subsidiaries, is the only nationwide specialty retailer of vitamin and mineral supplements, sports nutrition products and herbs, and is also a leading provider of personal care, and other health-related products.

The products were sold through 3, 757 General Nutrition Centers, 2, 531 of which were owned and operated by the company and the other 1, 226 stores were franchised. Much of the growth of GNC has occurred in the last 7 years. Since 1992, the Company has opened or acquired in the United States 2, 593 new GNC stores (SEC 10k form). The company" s initial growth was through company-owned stores located primarily in regional malls. Many of the stores that were created in the past 7 years have been franchises. This franchise initiative has enabled GNC to expand into secondary locations as well as International markets.

It appears that there is no end to the growth of GNC. At a Franchising meeting on February 6, 1999 GNC awarded and agreed to open an additional 323 domestic and 428 international franchise locations. All of these stores report to GNC headquarters, which is located in Pittsburgh, Pennsylvania. Pittsburgh is also home to one of General Nutrition" s three distribution centers. The other two distribution centers are located in Atlanta and Phoenix. The products that are distributed through these channels are manufactured in Greenville, South Carolina.

This facility is one of the largest and most modern vitamin and supplement manufacturing facilities in the United States. Within the coming months a new 600, 000 sq. ft. manufacturing plant and distribution center in Anderson, SC will open which will double the capacity of the company (www. gnc. com/about/history). As you can see net revenue increased to 1. 4 billion dollars, an increase of 18. 8 % over 1997. This increase was driven by the success of the Company" s store expansion program and increased demand for the Company" s products, as reflected by increased sales, across all business segments.

During 1998, the Company developed a web site, GNC. com, to sell products via the Internet. Although still in the early stages of operation, the Company expects sales to increase based on the growth of the Internet. The history of GNC shows their excellence in planning and execution of these plans. Going into the next millennium, the Company must actively scan theirenvironmentfor opportunities and threats. The General Nutrition Company is exposed to many external threats. Over the past five years there has been a trend in consumer behavior towards healthy living.

This trend has caused the health product and supplement market to drastically increase. Some of the most prominent external threats that GNC faces are new competitors, competing products and services, new technologies, government regulations, increasing customer expectations, general economic conditions, and the different cultural ways of the host countries. Some of GNC" s new competitors include Internet and mail order companies such as discountnutrition. com and the Vitamin Shoppe have entered the vitamin and supplement market recently. They have taken some of the Company" s residual sales by offering different mediums of purchase.

The Internet and mail order companies tend to offer discounted prices because they buy their products in bulk. A new competitor that has appeared in small regions across the United States has been Vitamin World. These shops tend to carry a similar product line with the exception of General Nutrition" s exclusive products. In addition to Vitamin World many other small chains have been started. Two of these chains are Great Earth and Vitamin Specialty of New York. These stores propose more of a threat to GNC" s corporate stores rather than the franchises because of the personalized service.

The franchise stores also have more leniency in determining the final price and any discounts or specials. With the addition of these new competitors and the threat that they pose the Company has maintained if not increased its market share in many markets. GNC manufactures and sells several lines of supplements, vitamins and minerals, as well as a variety of health foods. These product lines carry many names. Some of these names include Preventative Nutrition, GNC, and Pro Performance. All of these lines are sold exclusively at GNC stores and at their online manufacturer.

In addition to their own product lines, GNC stores carry a variety of products from third-party vendors. These third-party vendors include big names such as EAS (Experimental and Applied Sciences), Twinlab, Met-Rx, and Metaform. All of these vendors are in the top 5% of sales for their flagship product. The Company must realize this and make their own products more attractive to the consumer. Competing products from the third-party vendors are also sold at other stores, so this forces the Company to not only compete within their own store but to also compete in the marketplace.

Today, many companies are facing the threat of the internet. Many companies are not used to this advanced technological system and do not have the resources to compete. Not only is the Internet used for advertising purposes but it is also being used as an online ordering system. With the shift towards an online ordering system many things have to be taken into consideration and changed accordingly. The entire supply chain must be examined to identify any and all potential problems and differences that must be made as a result of this shift.

In this case, the manufacture, supply, distribution, and information flow are critical and will inevitably be modified from the traditional way of supply the product to the retail centers. Government regulations pose an enormous threat to the company. Potential government regulations will mandate FDA regulations and the testing of all products. This will dramatically increase the cost of production, which will ultimately be passed on to the end consumer. Some sport and diet supplements sold by the company today could be ruled illegal in the coming months if this occurs.

This could potentially reduce the number of products available as well as the customer base. With the nation" s shift towards healthier living, many consumers have begun to experience unrealistic expectations of the products offered by the company. This can be witnessed by the fact that 45% of all adult American" s take some form of supplement. An attitude that many American" s exert today is that they want the " pill" or supplement to take the place of the work that they themselves would otherwise have to do. Customers are also looking for a company that offers exceptional customer service and sales associate knowledge.

With today" s flourishing economy, the average American" s income is at an all time high. If anything would happen to cause a negative occurrence in the economy the average American" s disposable income would, as a result, probably decrease. This decrease in their disposable income would take away from their ability and/or desire to spend theirmoneyon products offered by GNC. The Different Cultural Ways of Host Countries The way that GNC handles their international business is through franchising. The franchising done internationally is done differently than is domestically.

During the international franchising process, the entire General Nutrition rights are sold to the franchisee for the entire country, not just an individual store as done domestically. The government regulations andculturedifferences or preferences are left to the discretion of the potential or existing franchisee. The threat is posed as a result of the lack of assistance and guidelines that would normally come from the corporation headquarters. As far as dealing with the individual host country" s government regulations and culture, it may discourage business in that country all together.

The availability of raw materials poses basically no threat to the company at this point because of their vast resources and long term contracts with their suppliers. But, in the future with the addition of many new entrants into the market a shortage of some raw materials and components may occur. General Nutrition was the pioneer of the nutrition industry and will continue to be for years to come. On of the major contributing factors to their success has been their ability to maximize their external opportunities.

Around the late 1980's the average Americans active lifestyle had reached an all time low. With the 1990's came the current trend of healthier living. It was at this time that consumers turned to GNC to help maintain a healthy lifestyle. GNC capitalized on this opportunity in several different ways. They began to change the typical consumer" s idea and preferences about the General Nutrition stores and products. They began advertising to all people and having specially trained employees with knowledge of all products that were carried.

This helped to make the store a more inviting place to everyone from a young high school athlete to a middle-aged mother of two. This also lead to new product market niches. Some of the more successful are the pro-performance line which is geared towards athletes, also the live well concept which promotes an overall healthy lifestyle which would be more suited for the average adult. With the change in customer preferences, GNC has the opportunity to increase market share by creating customerloyaltyand trust through groundbreaking products.

General Nutrition has done a tremendous job on utilizing these opportunities and in order to remain atop the competition they must continue to fine tune the and analyze the business strategy. Definitely one of General Nutrition" s greater external opportunities is their franchising and long-term alliance with Rite Aid. This opportunity is so tremendous that along with 697 stores opened in 1998 they also signed an alliance with Rite Aid. The alliance with Rite Aid allows GNC to enter a new channel for marketing its supplements.

With a the average American only five miles away from a GNC, there still is such a demand for the stores that they plan to open an additional 250 stores in the next year alone. This combined with a total commitment to providing customer support has helped make GNC one of the most successful franchises for the past decade. To continue to capitalize on these external opportunities the company can look to actively pursue their franchising capabilities while avoiding cannibalization of existing stores to allow them to remain the pinnacle of the health food industry.

The main reason that GNC has been and will remain the world leader in the nutrition industry is due to their ability to usetechnologyto receive great benefits. Their greatest areas of technology that set them apart from the rest are their manufacturing and distribution. This past year the company took a tremendous leap into the 21 century with the completion of a 630, 000 square foot state of the art manufacturing facility in South Carolina. Along with the new manufacturing facility, the Company was involved in a recent merger with the Dutch pharmaceutical company Royal Numico.

This merger makes the Company the world" s largest manufacturer of vitamins and supplements. This merger presents the company with a great opportunity to take advantage of the world class research facilities available to them. The Company should streamline their supply chain to fully take advantage of the new manufacturing and distribution facilities. This will increase the Company" s overall efficiency. The Company should look for a strategic alliance with an established online drugstore to broaden the Company" s market share. This would also allow the Company to gain entry into the world of e-commerce.

Internal strengths of the company include quality products emphasizing vitamins and minerals along with sports nutrition. This product mix focuses on high margin value added products, which are sold under the GNC proprietary brand. Along with vitamins, herbal, and sports supplements the Company also offers customers the opportunity the Gold Card program. This program enables stores to add to their product line. The basis for this program charges a $15 annual fee that entitles each member to a 20% discount on all products one time each month.

Sales of proprietary brands represented over 50% of total sales in 1998. Company reputation is another strength for the company. The Company is the only nationwide specialty retailer of vitamin, mineral supplement, sports nutrition products, and herbs. Along with these products the Company is also the leading provider of personal healthcare products. The company" s reputation was built on two basic principles. The first of these is strong customer service. The Company has a strong competitive advantage over competitors because of well-trained and informed employees who have knowledge of the entire product line.

The Company" s employees are knowledgeable and efficient because of the strong employee-training program. The second principal that has built their reputation is a superior product line. The proprietary brands along with other strong brand names enable them to have a product line better than the competitor. Production capabilities at the Company have enabled them to become the world leader in the their industry. The Company will be able to maintain their position as a leader because of their capacity to not only meet company inventory requirements, but also enough to sell to third parties in the wholesale market.

The Company is able to maintain strong production capabilities because of their emphasis on quality control. Each product is tested from the beginning to the end until the final product meets their standard. The Company has experienced a strong sense of executiveleadership. The current president has 25 years of experience within the company and the CEO has 18 years. The executive vice president has 19 years of experience and the head of logistics has 22 years under his belt. Along with this experience it is evident to see that there is an extremely low employee turnover ratio within management.

Turnover within this company as with any retail organization occurs with retail store management and part time sales positions. To keep this factor at a low level the Company started the franchise program. The Company wanted to bring strategic partners into their system that would personally invest in the Company" s program. Along with strong management leadership the Company maintains a strong employee base through orientation and hiring kits that enable the new employee to adjust quickly and become an efficient employee.

The company gives their employees the opportunity for tuition reimbursement, profit sharing, good medical and health benefits, and 401k and stock options. All of these factors allow a GNC employee to be part of a team. The Company uses patents to its advantage. By having patents on their proprietary formulas, vitamins, sports nutrition, and herbal supplements, the Company creates barriers between themselves and competitors. Along with their patents the Company conducts research with other companies. One such company is Proctor and Gamble.

Recently the Company has held the patent with Proctor and Gamble on calcium (calcium citrate malate). This product was found to be more absorbent than any other type of calcium. The Company achieves economies of scale throughout the entire organization and network of 5, 000 retail stores by a close arrangement of entities. These include arrangements with product suppliers, raw materials, packaging material, store supplies, retail advertising, third party advertising, insurance coverage, and credit card processing.

The close surveillance and agreement of these entities allows the company to achieve greater economies of scale. The mission of the Company is to maintain quality over quantity in its products. The company typically introduces 25 to 30 new products each year and reformulates existing products on an annual basis. An annual reset is done for the stores to introduce new vendor third party products, and new company products through expansion and deletion of retail shelf space. General Nutrition Companies Incorporated is the leader in health products but the company is not adverse to risk.

These risks that we can find within the company are considered to be the weaknesses of the company. The first risk is that Royal Numico has acquired GNC, now being a part of a larger company they must now try to fit into the larger system and integrate themselves. With the integration of the Company into Royal Numico there will be a significant amount of cash spent, some potentially dilutive issuance" s of equity securities, incurrence of debt or amortization expenses, related to goodwill and other intangible assets. Any of these can adversely affect the company; it" s operating results and financial conditions.

In addition to the financial and operating factors we could find difficulties in the assimilation of the technologies, products and personnel of the integrated company. Another weakness that the company has is their leverage problem. This means that the company has raised much of its capital through debt financing, including loans. Based on the current level of operations and anticipated level of growth, the company" s available cash flow, together with other sources of liquidity, will be adequate to meet to future needs of capital. Although it looks to be enough, there can be no assurance that the company will generate enough cash flow.