

Dan Popkey: 377-6438: Starting with oil from Australian tea trees, Melaleuca's Frank VanderSloot built a far-reaching wellness product empire in Idaho Falls

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Author: DAN POPKEY, apopkey@idahostatesman.com

IDAHO FALLS ... When Eliza VanderSloot brought home her report card from her first semester in college, she rushed to her father.

"Look, see, I barely made it!" she told Frank VanderSloot, founder and CEO of Idaho Falls-based Melaleuca Inc. and a big-footed financier of Republican causes.

"No," replied VanderSloot. "Read the document: Your GPA has to be 3.0, not 2.98."

"But that rounds up," protested Eliza, "so I'm fine."

VanderSloot doesn't round up. Using the same rule he and his wife, Belinda, apply to all 14 children in their blended family, he made sure Eliza lost her car for a semester.

VanderSloot's exacting standards built a direct-marketing company with \$1 million in sales in 1986 to nearly \$1 billion this year. Melaleuca has 800,000 customers for its household and nutritional products. About 37 percent also are "marketing executives," a sales force of independent contractors that have made VanderSloot's net worth over \$1 billion.

"When you combine discipline with a hard-nosed approach, you can really succeed in this business," says Joseph Voyticky, co-CEO of Max International, a competitor that settled a lawsuit with Melaleuca for \$1.2 million. Melaleuca alleged Max was raiding its sales force. Max issued a statement in February praising VanderSloot's innovation, leadership, hard work, vision and commitment.

TURNING HEADS AT THE TOP

Tom Donohue, president and CEO of the U.S. Chamber of Commerce, put VanderSloot on his Executive Board in 2004. "There's no industry more engaged in taking small entrepreneurs and building them into self-managing companies and a successful part of the American system," Donohue says.

Donohue so admires VanderSloot that he urged him to become chairman of the U.S. Chamber.

VanderSloot declined.

"I'm on a mission," Donohue recalls VanderSloot replying. "My mission is to help the people in our business and the people that are going to get into our business fulfill their dreams and achieve levels of success they never envisioned, and to demonstrate, vividly, my belief in the American enterprise system."

Donohue says he still hopes to recruit VanderSloot as chairman: "I don't get turned down very often."

VanderSloot, 63, says he has too much to do and has made too many promises.

He speaks of his "love" for his sales force and their physical, economic, environmental and personal wellness. Melaleuca's slogan is "The Wellness Company."

The company's mission statement rolls off tongues of marketing executives like Steven Peters of Faribault, Minn., who makes about \$350,000 annually and ranks No. 15 among salespeople.

"Enhancing the lives of those we touch by helping people reach their goals," says Peters. "It's like a family, and Frank is kind of the father."

FEAR BREEDS SUCCESS

Like many others, Peters has heard a foundational VanderSloot tale. When Frank was 10, his father, also Frank, was supporting his wife, Margaret, and four kids on the wages of a painter for the Northern Pacific Railroad. The family had a farm in Cocolalla in Bonner County, which is still run by Frank's sister.

In the farmhouse, Frank and a brother shared an attic bedroom above their parents' room. One night, Frank heard his father crying.

"He was apologizing to her that he'd failed her financially," VanderSloot says. "I respected him, admired him, looked up to him. And he felt like a failure. It scared me to death. If he couldn't provide for his family, how could I?"

In ninth grade, the principal at Sandpoint High School, Mr. Stidwell, told VanderSloot he was concerned: VanderSloot had registered the lowest score ever on a leadership test.

VanderSloot told Stidwell: "I want to be the guy on the garbage truck. I'm not risking anything, I'm not going to be embarrassed. I want to have a job where no one is watching."

At 16, VanderSloot converted to the Church of Jesus Christ of Latter-day Saints on account of a "cute little redhead." He followed her to Brigham Young University, but she quit him after three months.

"I'd been discarded," he remembers. "Then I looked at where I was ... a C student. That's when I decided I wanted to become somebody that you wouldn't just throw away. I became a straight-A student and a workaholic."

OIL OF MALARKEY

After a two-year LDS mission in Holland, VanderSloot returned with confidence, deciding, "You can be what you want to be."

Putting himself through school meant living in a laundromat, selling beef jerky in bars and teaching Dutch to future missionaries. The laundromat didn't have a shower, so VanderSloot took sponge baths. The only thing he minded: mice poaching his groceries. Self-deprecating and serious about the Sabbath, VanderSloot closes his U.S. call centers on Sunday. His fiercest epithet? "Oh, fiddle!"

VanderSloot graduated from BYU in 1972 with a degree in business administration and spent 13 years in mid-level management for ADP and Cox Communications.

In 1985, his brother-in-law, Roger Ball, who'd sold him the King B jerky, asked VanderSloot to leave Vancouver, Wash., for Idaho Falls. Ball and his brother, Allen, wanted VanderSloot to take over a fledgling multilevel sales company called Oil of Melaleuca, named for a product of the Australian "tea tree" with antiseptic and analgesic properties.

His colleagues at Cox gave him this sendoff: a tiny tree covered with tea bags and labeled "Oil of Malarkey." They thought he was crazy to leave the safety of the cable TV business.

VanderSloot says the company was a mess. A supposed 80 percent corner on the tea tree market turned out to be 5 percent. The FDA came knocking, because salespeople were exaggerating medical claims. A multilevel model that lured people to buy \$5,000 in inventory offended VanderSloot's sense of fairness.

A woman who'd spent her husband's life-insurance benefit to buy products called. "I bought this inventory and, Frank, I don't know how to get rid of it," he recalls her saying.

The partners shut down the company. Five months later, a new company, Melaleuca, was launched with

VanderSloot as president and CEO.

It now cost \$29 for a starter kit. Preferred customers ... 98 percent of those 800,000 ... promised to buy about \$50 a month in product in exchange for discounts of 30 percent to 40 percent.

By 1991, sales were \$100 million. In 2004, Forbes magazine said VanderSloot was worth \$700 million, valuing the company at \$1.4 billion. VanderSloot owns 55 percent of the voting stock and 44 percent of the nonvoting stock.

Allen Ball has 45 percent of the voting stock and 38 percent on the nonvoting stock. The balance of the nonvoting stock is owned by 20 investors ... members of the Ball and VanderSloot families, current and former employees, and investors in Taiwan.

In 1998, VanderSloot bought out Roger Ball for \$132 million. VanderSloot says the buyout came after the Balls tried to fire him, and top salespeople balked. Neither Ball replied to requests for comment.

VanderSloot won't discuss his personal worth. But estimates suggest Melaleuca would be valued at \$3.2 billion to \$3.9 billion were it to go public.

CREATIVE RUTHLESSNESS

Melaleuca now sells more than 350 products, and fewer than 10 percent contain the oil. Some have names coined by VanderSloot, including muscle and joint treatment Pain-A-Trate. The company operates in 14 countries and has 3,100 employees, mostly in Idaho Falls and Rexburg.

VanderSloot is aggressively litigious, according to Richard Armstrong, who represents eight clients who are former Melaleuca marketing executives who are suing or being sued by VanderSloot over the company's tough nonsolicitation contract. All salespeople agree not to recruit any Melaleuca salespeople or customers "to participate in any other business venture" for a year after separation. The contract applies to all members of an "immediate household" and to third parties.

"Network marketing is a cheap way of doing business, because you don't have the overhead of employees," says Armstrong, of Salt Lake City. "If you have a decent product and a decent story, you can make quite a bit of money. But if there's any indication that distributors who leave the company are talking to (competitors), whether it's family members or best men at weddings, that's interpreted as being recruitment activities in violation of the contract."

VanderSloot makes no apology. "We're adamant about enforcing that. We're as hard as rocks on it. I'm ruthless with it, because for the people that are here my job is to protect them."

In 2007, Melaleuca sued Jeff Wasden, former vice president of marketing, for violating a separation agreement. Wasden made written statements, including one to the Legislature, saying VanderSloot managed "by fear, intimidation and manipulation."

Three years and five judges later, Wasden's counterclaim of defamation against VanderSloot was dismissed and Wasden was ordered to repay \$241,275 he'd received from the company.

Melaleuca pays salespeople 7 percent commissions for the sales generated by those they enroll as customers, and pays down seven "generations," or a maximum of 49 percent of retail. Total commissions since 1985: \$2.8 billion.

The sales force adores the boss.

"He works so hard for us," says Debra Lish of Pocatello, who makes about \$150,000 a year and worked three jobs at a time before making Melaleuca her full-time job 23 years ago. "Of course, when you love somebody like we love him, we work hard for ourselves and for him."

Several years ago, Lish won a contest for a trip to Las Vegas. Had she been married, her spouse could have joined her, but a company executive barred her from taking a guest. Lish decided not to go and later told VanderSloot

about the slight.

"This will be changed as soon as we're off the phone," Lish remembers VanderSloot saying. He then paid for Lish to go to Vegas, along with her two daughters and mom. "Every time, he does the right thing," Lish says.

Doug Moss was VanderSloot's director of Canadian sales from 2001 to 2005. Lawsuits are "part of his genius," says Moss, who now is working on a startup in Idaho Falls and says he'd work for VanderSloot again.

"Frank's brilliant," Moss says. "Nobody understands network marketing like he does. If a rumor is out there about him in any way and he doesn't like it, he'll deal with it."

Shielding Melaleuca's Better Business Bureau-approved image in an industry with many examples of unsavory practices is vital, Moss says. "There are a lot of slippery people," Moss says. "You have to be protective of your own."

POLITICAL CLOUT

In 1991, Melaleuca and Idaho Attorney General Larry EchoHawk agreed to an "assurance of voluntary compliance" in which the company agreed not to suggest products had been endorsed by the attorney general or the FDA. The company said it would police salespeople who overstepped.

In 2010 and 2011, the attorney general has received 10 complaints, mostly from customers reporting trouble getting their accounts closed and continuing to be charged for product they didn't want. During those 21 months, Melaleuca processed about 19 million orders.

In 1994, VanderSloot supported EchoHawk, a Democrat, for governor. VanderSloot since has become the state's most boisterous conservative financier. He spent more than \$100,000 on independent advertising on three winning judicial campaigns, two for Supreme Court and one for district judge in Bonneville County.

He was with Gov. Butch Otter on his 2007 trade mission to Cuba and has provided critical support to Attorney General Lawrence Wasden and Superintendent of Public Instruction Tom Luna. In 2008, he lobbied successfully for changes in Idaho employment law to make it easier for companies like his to restrain ex-employees and contractors from competing with their former companies. In 2010, he spent \$88,000 backing winning GOP candidates and constitutional amendments.

During the 2010 governor's race, he criticized Democrat Keith Allred. At an Otter rally in Idaho Falls featuring Mitt Romney, VanderSloot said Allred "has been sending eastern Idaho Mormons the message, 'I'm Mormon, so vote for me because I'm one of you guys.' My answer to that is, well, (Senate Majority Leader) Harry Reid is a Mormon and look what that has done for us." Allred replied that it was "unfortunate that Frank VanderSloot wants to use religious and partisan labels to distract people."

UNIONS, GAYS AND BOY SCOUTS

This year, VanderSloot paid \$47,000 for full-page newspaper ads supporting Luna's K-12 reform bills and blasting teacher "union bosses."

"Frank is a great Idahoan who understands there is an inseparable link between business and education," Luna says.

But the Luna-VanderSloot alliance has won VanderSloot undying enmity from the Idaho Education Association. At the retirement party for IEA President Sherri Wood in August, a fictional telegram from VanderSloot to Wood was read as part of a roast: "My accountant says I've given so much money to right-wing political crackpots that my reputation and my bank account are in a tailspin. Everybody tells me part of that is because all the teachers in Idaho have decided to boycott me and my products."

The IEA has not formally organized a boycott, but there were postings on Facebook during the debate on Luna's bills from people saying they would stop buying Melaleuca. A "Boycott Melaleuca" Facebook page exists but

appears to be inactive.

VanderSloot waves off any notion that his politics hurt business and says his support of Luna was, in part, an effort to level the playing field while the IEA spent \$182,000 to defeat Luna in 2010.

But a former Melaleuca employee, Chet Seely, says he raised the question inside the company of whether VanderSloot's outspokenness might hurt the bottom line. "I think it was good with the subset of people that followed closely his political beliefs, but I think there may be others that probably opted out, moved on or never came on board, both on the customer side and the business-building side," Seely says.

During a decade with the company that ended in 2007, Seely rose to vice president overseeing Korean sales. Seely is co-founder of Independence Energy, a Philadelphia network marketing company that sells electricity. VanderSloot says Seely is not only wrong but wants "to steal our customers."

"We gain a lot more customers than we lose because of the positions we take," VanderSloot says. During the 2011 Legislative session, when VanderSloot's ads were supporting Luna's reforms, the company gained about 700 preferred customers in Idaho and lost about 50. "We get lots of pats on the back," he says. About 10,600 Idaho households are preferred customers.

In 1999, VanderSloot bought 25 billboards to say the broadcast on Idaho Public TV of "It's Elementary," a documentary about how several schools discussed homosexuality, was promoting "the homosexual lifestyle to your children." (In 2008, Belinda VanderSloot contributed \$100,000 to the Proposition 8 campaign, which overturned California's same-sex marriage law.)

In 2006, VanderSloot engaged in a bitter fight with the Idaho Falls Post Register over its six-day series about pedophilia in the regional Boy Scout council. "We didn't believe it to be a truthful or accurate picture of the situation," VanderSloot says.

Later, however, VanderSloot says he quietly employed Paul Steed while Steed successfully fought at the Legislature to lift the statute of limitations on child abuse. Steed is the father of two boys whose case put Brad Stowell, a former Boy Scout camp director convicted of child molestation, in prison. VanderSloot also met at length with victim Jeff Bird and gave him a \$30,000 Christmas check. And he helped broker a settlement between the Boy Scouts and the Steeds.

His relationship with the paper has warmed. His six radio stations partner with the Post Register on marketing promotions, and much of Melaleuca's printing is handled by the paper.

Publisher Roger Plothow says VanderSloot reached out to repair the relationship. Not long ago, VanderSloot was on a radio talk show saying the paper did good work and that he respected Plothow.

"He didn't need to do that," Plothow says. "I think he's mellowed in the last four or five years."

A LASTING MARK

VanderSloot's contributions to his community include paying for a July 4 fireworks show in Idaho Falls that's drawn as many as 200,000 spectators. The company says it's the second-largest in the U.S. He has put up \$1.5 million to jump-start a regional water treatment plant, paid \$600,000 at the 11th hour to rebuild the minor league baseball stadium, and helped raise \$300,000 in August for the Idaho Meth Project with a concert at the ballpark, Melaleuca Field.

Says Idaho Falls Mayor Jared Furhiman, "The guy is passionate, through and through. And there are a lot of things that Frank does behind the scenes. People would be amazed at the families he's taken care of with medical bills and different kinds of things."

Senate Majority Leader Bart Davis, R-Idaho Falls, says VanderSloot is no bully, despite his tough tactics in court. When he differs with VanderSloot, as he does on tort reform, "I have never felt retribution. Frank has a great deal of influence, and I think he tries to use that in a positive way. This is a man who freely gives of his purse."

VanderSloot has a 17-bedroom house that cost \$1.5 million to build. His ranch is fancy enough that he's hosted Mitt Romney and other big names for campaign fundraisers. VanderSloot also owns ranches in Montana. His ranching operation, called Riverbend Ranch, is the only one in the U.S. ranked in the top 20 in the number of cattle in registered and commercial cow-calf operations.

Frank and Belinda insist the children work part-time in exchange for college tuition and have strict rules about gifting for them and 43 grandchildren, demanding they save or lose future gifts. "They're not big on handouts," says Eliza, the daughter who lost her car. With her waitressing earnings, Eliza contributed \$1,000 for her mission and \$3,000 for eight months she spent working at an orphanage in Ecuador.

The VanderSloots have been married 16 years. Six of the 14 children are Frank's by two prior marriages; eight are Belinda's from her first marriage. "We've never used the word 'step-' in our family," Eliza says.

Seven of nine daughters are married ... they get just \$6,000 each for the event and keep what they don't spend. Eliza married Jason Ruys in 2008, spending \$50 on a cake and walking away with \$1,500. "It was the happiest day of my life, and money wouldn't have made it happier," she says.

But VanderSloot says the purses he cares most about belong to his employees and almost 300,000 people in his sales force. In his Idaho Falls plant, there's a banner with a figure: \$1,116,456. That represents how much a worker who started at age 22 at \$8 an hour would have at retirement, assuming he or she received 5 percent annual raises and invested longevity bonuses in a company-matched 401(k).

"I think it's fine to be wealthy, as long as the people that took you there participate," he says.

About 90 percent of his sales force average less than \$2,100 in annual income from Melaleuca, but VanderSloot says that's a valued supplement for part-time work and contributes to a prudent financial lifestyle. Among his favorite events are mortgage-burning parties he throws for employees and salespeople.

Inspired by his father's story, VanderSloot frequently talks about the "little guy." His aim, he says, is opportunity. "In this deal, they get a promotion if they want it. It's all about America. It's all about people getting to decide for themselves."

Dan Popkey: 377-6438

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