

# **How To Start & Run A Profitable Weight Loss Business**

## **Introduction**

### **Reality Check – Your Product or Service is NOT Unique**

I know, I know. You've created the greatest weight loss product or company since sliced bread. You say you have NO competition. Your product or program is unique. That's Bull! Now get that thought out of your head, before you waste thousands or hundreds of thousands of dollars and lots of time.

Despite what you feel, the number of visitors to your weight loss website will be much lower than you think. There will be no crowds breaking down doors to enter your weight loss center or lining up to buy your diet book.

Why? Simple—this is a very crowded marketplace. There are thousands of weight loss websites, all using the same search engine optimization techniques, lots of diet books churned out by doctors, celebrities and publishers, and many of them have bigger marketing budgets than you.

The fact is, most weight loss products or programs have become "commodities", with very few differences. Usually, the difference lies in superior customer service, quality of counselors, price, or a new twist or way of delivering the product or service to the customer.

Don't plan on getting rich quickly in this business. But, you might get rich slowly, if you do things right. If you truly do have that idea or product that's among the 5% that are really unique, congratulations.

This book's objective is to get you to face that reality and improve your chances of success by doing the right things and learning from others' mistakes.

NEVER underestimate your competition.

## **Who Wrote This Book and Why? Our Qualifications**

My name is John LaRosa. I'm the President and founder of Marketdata Enterprises, Inc., a Tampa, FL market research and consulting firm. I have 20+ years experience as an analyst of the United States weight loss market, beginning in 1989.

My company, Marketdata, was the first (to our knowledge) to publish a comprehensive analysis of ALL segments of the weight loss market, in 1989. That pioneering market study was used by a Congressional Subcommittee headed by Ron Wyden that was at that time (1990-1991) investigating deceptive advertising and marketing practices of diet companies.

At that time, there was no single trade association or group that represented this market, nor was there any magazine or trade journal covering it. There STILL isn't, although trade groups exist in specific market segments. No one organization unifies the field or stands as the "voice of the industry", as they do in nearly all other major industries. A \$59 billion industry with no trade group? That's ludicrous.

The American Society of Bariatric Physicians (ASBP) represents physicians with a board certification in treating obesity (bariatricians). The American Society of Metabolic and Bariatric Surgery (ASMBS) represents weight loss surgeons. The Electronic Retailing Association represents infomercial producers. The Calorie Control Council represents low-calorie food and beverage manufacturers.

These organizations are listed in the Reference Directory at the end of this book.

Why is there no one umbrella organization representing providers of weight loss products and programs? As far as I can tell, it is because the managements of these various companies and groups (food manufacturers, physicians, commercial and medical weight loss center chains, etc.) all feel that their approach is best and superior to the others, and they compete vigorously with each other. The CEOs don't want to be in the same room, for fear of divulging "company trade secrets".

And, believe me, there are some VERY large egos in the weight loss field. This is understandable, since many of these CEOs and company founders amassed fortunes when there was much less competition, back in the 1970s and 1980s.

Many times, these competing organizations just don't understand the nuances inherent in other weight loss segments. For example, most physicians make lousy businessmen, and marketers. They get into the field thinking they don't need to advertise, that clients will just flock to them and pay whatever they ask. Wrong!

I personally tried to create a trade association for the industry in 1994, and was rebuffed with all the major weight loss companies. Now I understand why this effort was doomed to fail.

Over the past 20 years, I have made presentations and speeches before medical groups and commercial groups. I have performed custom research projects and consulted for large weight loss companies and entrepreneurial start-ups. I have listened in on the quarterly conference calls where publicly-owned diet companies (There are only 5: Weight Watchers, Medifast, NutriSystem, eDiets.com, Herbalife) report their results. I have seen the "good, the bad and the ugly" of advertising campaigns, botched public relations efforts, and mismanagement.

Unlike other weight loss analysts, including Wall Street broker firm analysts, I have followed ALL segments of the weight loss market. Most others focus solely on diet foods, weight loss chains, or prescription obesity drugs. Most have a narrow focus or are concerned mainly with short-term results.

Most weight loss and stock analysts have a few years, at best, of experience tracking the industry. They have no idea of what happened in past recessions, during fad diet trends (i.e. Atkins & South Beach Diet low-carb craze). They usually follow ONE diet company – not all of them. They do not look at 20 years of market developments, as Marketdata does.

That's where Marketdata and John LaRosa differ. We realize that all these segments of the diet market are competing with each other, for the same consumer weight loss dollar. And, we have the long-term perspective. Most stock analysts are merely "financial robots" that like to tout terms such as "EBIDTA", while ignoring the qualitative factors that make a diet company successful (brand name, image, customer service, public relations, ethics, quality of management, etc.).

Other Qualifications:

- Marketdata and John LaRosa have authored 10 editions of a biennial market research study: [The U.S. Weight Loss & Diet Control Market.](#)
- Marketdata has authored 2 editions of a separate study entitled: [The Diet Food Delivery Services Market.](#)
- Marketdata has published 18 quarterly reports since Q1 2005, tracking online dieter behavior and preferences, entitled: [Online Dieter Research Report.](#)
- Marketdata has operated a major weight loss analysis and information website and portal, FREE for consumers, called: **BestDietForMe.com**. This website contains

2,000+ pages of articles and content, primarily from proprietary research performed by Marketdata.

- Marketdata, via BestDietForMe.com, has participated in dozens of weight loss, fitness and other affiliate programs of interest to dieters.

The typical American dieter makes FOUR dieting attempts per year. They don't use the same product or program all four times. If one plan doesn't work, they try another, in an ongoing effort to find the "holy grail" of weight loss. They are fickle. They will jump on the latest trend or bestselling diet book by a celebrity, or program pitched via mail order or infomercials on TV.

My purpose, in this book, is to educate you, the prospective weight loss business owner, to the nuances of this market and to improve your chances of success in a dynamic and competitive marketplace.

We want to stack the deck in your favor. If you help people to improve their health by losing weight in a safe manner, and make a living at it in the process, with a professionally run and ethical business, so much the better.

### **My Background – John S. LaRosa, MS, MBA**

Mr. LaRosa is the President of Marketdata Enterprises, Inc., a privately owned independent market research publishing/consulting firm. During his career, Mr. LaRosa has personally authored more than 100 major industry/market studies, primarily in the service and healthcare sectors. In addition to publishing such studies, Marketdata has extensive experience creating and building "authority websites". These include: BestDietForMe.com, SleepWeb.com, MyPersonalGrowth.com, and Pain101.com.

Many of Marketdata's studies (personally researched by Mr. LaRosa) cover little-analyzed niche markets. Frequently, Marketdata's study is the ONLY business analysis available. Such is the case with sectors such as: the self-improvement market, the sleep market, smoking cessation programs, pain management programs, dating services, adoption agencies, the weight loss market, etc.

Mr. LaRosa performs frequent custom studies and consulting assignments for Fortune 1000 corporations, and writes articles for a variety of trade associations, newsletters, magazines and journals.

Mr. LaRosa has worked as a consultant and advisor to several industry trade groups, including the Equipment Leasing Association and the National Parking Association. He also is

a contributing writer to trade journals such as The Bariatrician. Mr. LaRosa holds numerous conference calls with Wall Street and other analysts, primarily covering the weight loss market. He also critiques and advises start-up companies with new product launches, business and marketing plans.

Mr. LaRosa graduated from the State University of New York with a B.S. in Education in 1976, and earned his M.B.A. in Marketing from Hofstra University in New York in 1979. He has worked for 29 years in the fields of: Marketing Management and Marketing Research, and now lives in Tampa, Florida.

Marketdata's market research has been quoted since 1989 by the... Wall Street Journal, N.Y. Times, Newsweek, USA Today, Forbes, Fortune, Business Week, Entrepreneur, Research Alert, Bariatrician, Nutrition Business Journal, LA Times, Boston Globe, Chicago Sun Times, dozens of national trade groups, and hundreds of local newspapers nationwide. Mr. LaRosa has appeared on CNN, Nightline, ABC, FOX-TV, and other stations and is frequently interviewed by the media.

### **The Demand for Weight Loss – Why It Will Be With America For A Long Time**

A culture changes very slowly. The American culture is one of instant gratification, fast food, and convenience. Our food is loaded with high fructose corn syrup, sodium, sugar, and calories. Added to that, most of us don't exercise enough and the Internet has made us more sedentary. This is not likely to change anytime soon. Obesity will not be solved by a magic pill, but by long-term lifestyle changes. And these take time.

In addition, the American population is aging. As we age, our hormones change along with our metabolism, which slows. This is especially true for women, as they approach and enter menopause. Remember, 80-90% of dieters are female.

According to government data, 66% of the 229.5 million American adults are now **overweight, or 151 million people** (BMI 25.0-29.9), and 31% are **obese, or 71 million people** (BMI of 30 or higher). Those 71 million that are obese (a BMI of 30+) is the potential universe of customers for a medical VLCD (very low calorie diet) program.

This means that the potential "market" for medically supervised weight loss programs (very low calorie and modified fasting programs, or doctors prescribing diet drugs for their patients, or weight loss surgery - via hospitals, clinics and private physicians' offices) is 69 million Americans. These are the people that are in greater and more immediate danger of developing obesity-related health complications such as heart attacks or diabetes.

The larger group of 147 million overweight Americans constitutes the share for whom their overweight condition is not life threatening, i.e. they're concerned with cosmetic weight loss to help them look and feel better. This is where the large "mass market" lies for most of the commercial weight loss products and programs in the United States.

According to surveys of American dieting habits performed by the **Calorie Control Council**, following are the estimated number of Americans using some kind of diet. **The latest estimate of 72 million is a major 35% increase from the year 2000. Marketdata analysts agree with this estimate.**

**This is a female-oriented market – Most diet programs are skewed to about 80-90% female customers.**

Following are Marketdata's estimates for the major segments of the U.S. weight loss market: (\$ billions)

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>
<b>Diet soft drinks</b>	\$17.08	\$18.00	\$19.28	\$19.80	\$19.53
<b>Artificial sweeteners</b>	2.06	2.17	2.29	2.36	2.36
<b>Health clubs' revenues</b>	15.17	15.90	17.60	18.50	18.50
<b>Commercial weight loss centers</b>	2.00	2.58	3.33	3.89	3.46
<b>Low cal/diet foods</b>	2.21	2.63	2.66	2.76	2.92
<b>Retail &amp; multi-level meal replacements, diet pills ®</b>	2.36	2.65	2.53	2.58	2.66
<b>Bariatric surgery</b>	3.50	4.27	4.44	5.12	5.50
<b>Prescription diet drugs</b>	.435	.413	.459	.486	.494
<b>VLCD/LCD programs</b>	.343	.379	.415	.473	.473
<b>Bariatricians' plans</b>	.720	.720	.720	.720	.720
<b>Hospital, clinic, MD plans</b>	.682	.716	.753	.843	.850
<b>All Medical Plans subtotal:</b>	5.68	6.49	6.74	7.64	8.03
<b>Diet books, cassettes, exercise videos ®</b>	.714	.821	.920	1.01	1.12
<b>TOTAL INDUSTRY:</b>	<b>\$47.27</b>	<b>\$51.24</b>	<b>\$55.35</b>	<b>\$58.54</b>	<b>\$58.59</b>

® Figure revised by Marketdata Source: Marketdata estimates and forecasts

\* includes low and moderate-cost hospital programs, treatment by RDs, MDs, etc.

## **Recent & Emerging Diet Market Trends During This Recession**

There are two major themes characterizing the United States weight loss market currently:

### **Sell Direct to the Consumer**

Selling your weight loss product or program directly to the consumer, without a middleman, has become, with few exceptions, the dominant distribution model. The evidence:

- NutriSystem sells direct to consumers via TV, print and Internet ads. The customer does NOT go to a weight loss center.
- Jenny Direct (no center visits, food shipped to the home) has become the fastest-growing part of Jenny Craig's business.
- Diet food home delivery services have proliferated the past two years.
- 65% of Medifast's sales are direct to the customer.
- WeightWatchers.com, its online division, basically a home-based do-it-yourself plan, is the fastest-growing portion of the company.
- HMR At Home (a non-medical option) is the main focus and fastest-growing portion of the medically supervised low calorie diet program by Health Management Resources.
- Glaxo SmithKline now sells Alli (the lower dosage form of Rx diet drug Xenical) directly to consumers, bypassing physicians.
- Weight loss supplements and retail diet pills are sold via Internet email ads and websites, and infomercials.

Exceptions include: Jenny Craig (regular center-based plan), LA Weight Loss Centers (which is in deep trouble), other brick & mortar chains, medical clinics, and multi-level marketers such as Herbalife, which have thousands of "independent distributors".

### **Create a "Value Menu" Lower Cost Plan**

In this economy, for 2008-2009, expansion plans had to be scaled back, more services have been added at no extra cost, specials coupons and discounts have appeared, free days or weeks of food are given, and registration or enrollment fees have been cut or waived by

most weight loss companies. In most cases, there is a regular program and a "light" version (less personal visits, less counseling, only essentials – at less cost).

### **Major Forecasts**

1) Marketdata expects that the recession will put substantial pressure on consumer's budgets and hamper enrollment in the more expensive weight loss programs. January could be an unusually difficult month because consumers are already maxed out on their credit cards. In addition, bills from holiday purchases will come due on January.

2) This will be the year of a "value diet". We expect to see dieters shift toward a greater use of free and low cost do-it-yourself weight loss programs (examples: Sparkpeople.com, weightwatchers.com and other diet websites, Discovery Health's Weight Loss Challenge, etc.). Fully 70% of all dieters are do-it-yourselfers anyway, as corroborated by various surveys.

In fact, Marketdata's online quarterly survey offered at its website **BestDietForMe.com**, shows that **the percentage of dieters that prefer a home-based/online weight loss program stood at 75.5% at the end of the 4<sup>th</sup> quarter 2008**. Since we began this tracking service in 2005, this do-it-yourself percentage has grown steadily, from 59.3% in 2005 to 67.0% in 2006, to 70.5% in 2007 and 75.5% for 2008.

3) 2009 will be a very challenging year for all diet food home delivery services. We expect some to go out of business and some to merge with stronger competitors. Services catering to the higher end of the market, those charging more than \$1,000 per month, may find that their affluent clients in the entertainment industry and high income executives are not as affected by the recession. However, at this price point it will be difficult to expand into mass markets. Even NutriSystem, which is priced around \$300 per month, felt the effects of the recession in 2008 and will likely need to hold prices down. They have, in fact, done this already by offering their food at a discount through Costco.

Jenny Direct business should grow, while their regular program enrollments are expected to be flat. The cost of Jenny Craig food is still \$400+ per month, a drawback for many dieters on a budget.

4) Competition and heavy advertising will be prevalent in 2009. Marketdata expects to see more discounting of weight loss programs. Initiation/set up fees will be lowered or waived in most cases, along with an offer of free food (example: one week of free food per 4 week cycle for NutriSystem and Medifast). We will also probably see more coupons and the waiving of shipping charges.



5) Retail diet pills/products sold in stores, by mail order, over the Internet, and by TV infomercials should be popular this year. Several new products have already appeared on the scene in early January: Zylotrim, Lypozene, Ephedra/Hoodia Fusion.

6) The market for prescription diet drugs will come under pressure as more consumers lose health care coverage when they're laid off. Even those who are still employed have been cutting back on doctor visits, splitting pills, and skipping days lately as their budgets have been pinched. No new prescription diet drugs are expected to obtain FDA approval and make it to market this year.

7) More consumers will be exercising at home, using exercise DVDs, walking in their neighborhood, using the YMCA – designing their own exercise program in an effort to save money. Health club trade associations confirm that gym memberships were down 3% in 2007 and 2008 is expected to be a flat year. Health club chains in the middle price range, such as Bally's Total Fitness are having trouble. Bally's recently filed for bankruptcy for the second time in 2 years and many clubs report seeing more cancellations. The gym membership is usually one of the first things consumers drop when money gets tight.

8) Marketdata analysts expect more consumers to take advantage of employer subsidized health club memberships and weight loss programs. Many companies offer discounts as high as 50% or more on gyms and diet programs like Jenny Craig and Weight Watchers. One example is the 50 million pound challenge, a program sponsored by State Farm Insurance. Some corporate wellness programs such as Blue365 offer professional help as well as discounts. In this plan, participants can receive phone calls or emails to ensure that their weight loss and exercise are on track.

9) Medically supervised weight loss programs, which tend to cost more, may find it challenging to register any growth this year. Many of these programs cost \$1,000 and up when adding the expense of lab tests, injections, special supplements and vitamins, weekly doctor visits and counseling. Coverage for these programs will vary by insurer, but in many cases consumers have to pay for such programs out of pocket. In this year of tight budgets we think many dieters will opt for less expensive diet programs.