



Dell shadow lingers over Herbalife site in Winston-Salem [Winston-Salem Journal, N.C.]

Dec. 23, 2012--There was an unmistakable back-to-the-future vibe at the event Wednesday welcoming Herbalife Ltd. to the Triad.

To start with, Wednesday's celebration took place in the empty former Dell Inc. desktop-assembly plant. It was three days shy of the Dec. 22 anniversary of the 2004 announcement that the computer maker had chosen the Temple School Road site for its \$115 million plant.

On Wednesday, a large green Herbalife banner was draped behind the speakers in the front lobby where the company pledged to create 493 jobs and spend \$130 million to buy and renovate the Winston-Salem plant. An Herbalife flag hung at the front door.

But next door to the lobby was a reception room that still contained Dell marketing signs, like a departed family member's belongings never cleared out of the closet.

It was where Michael Dell, founder and chairman of Dell, said during the October 2005 plant grand opening that Winston-Salem was the right place for the company to take a calculated expansion risk.

That decision ended the most intense economic-incentive competition that the Triad has ever experienced.

It also generated joyous, back-slapping, we-won-the-Powerball-lottery response from local and state elected officials.

That was understandable considering the local community had suffered recently through the loss of Wachovia Corp.'s headquarters and 1,300 jobs, the continued hemorrhaging of R.J. Reynolds Tobacco Co. blue- and white-collar jobs and the shrinking of the area's furniture, textile and trucking sectors.

Dell's arrival was called a once-in-a-lifetime economic victory, a needed shot in the arm for the community. After all, Dell was at the peak of its global production prowess and had a new Winston-Salem address.

David Plyler, a Forsyth County commissioner, said in October 2005 that on a scale of one to 10, the community had an energy level of a five before Dell's commitment to the local plant.

"Now, we're really close to a 10 because we've entered the 21st century with the best of all potential companies," Plyler said.

By comparison, Herbalife has been on a remarkable surge with its nutrition and weight-loss products that it sells through a global network of distributors. It had net sales of \$3.5 billion in 2011 and \$3.01 billion through the third quarter of 2012.

Although the reaction to the Herbalife confirmation was more subdued than to the Dell news, it was clear this week that officials felt the Triad has won another big corporate coup by landing a prominent global company.

"This is a real hallmark day for a community as you try to bounce back," Gov. Bev Perdue said.

Perdue touted Herbalife, as Gov. Mike Easley did Dell in 2004, as a major marker for the manufacturing evolution of the Triad economy.

Herbalife's decision is "helping to redefine the backbone of an economy," Perdue said. "This plant is another testament to the resurgence in manufacturing in North Carolina."

Comparisons linger

Both Dell and Herbalife officials touted their East Coast manufacturing plants as being their largest in the world, a visible sign of their financial strength and the validity of their business model.

Dell dismissed critics who cautioned that the Winston-Salem plant represented saturation, if not oversaturation, of production capacity necessary to meet business and individual demand for desktop computers in North America.

About two-thirds of the 750,000-square-foot Dell plant was dedicated to production. Herbalife plans to start with 300,000 to 350,000 square feet of production capacity.

Dell's strategy in 2004 was offering customized desktop computers to buyers within a two- to three-day delivery. It was a crucial part of its brand and appeal and an impressive visual, given the elaborate assembly and distribution equipment and loading docks as far as the eye could see.

"Under this scenario, when we grow this to be a large and successful plant, there's a whole lot to be gained for the state in jobs ... and creating an environment for success in the future,"

Michael Dell said during the 2005 grand-opening event. "Hopefully, this plant will set a new standard for productivity and help keep us competitive."

However, the steep decline in prices for laptops (which Dell chose not to make domestically) and consumer preference for a generic Dell PC at retail affected sales enough that officials decided in 2009 a U.S. plant was no longer needed

As a result, a plant that once contained 1,400 Dell, contract and vendor employees was empty by November 2010.

Richard Goudis, Herbalife's chief operating officer, said production at its Winston-Salem plant will come primarily from returning outsourced work as part of its "Seed to Feed" strategy and from projected increased domestic and international demand for its nutrition and weight-loss products.

"This acquisition is part of vertically integrating our supply chain to give us even greater control of our products at every stage of the process and increasing our ability to meet the increased product needs of our independent distributors and their customers around the world," Goudis said.

Incentives key

Dell was perhaps the Triad's most challenging corporation to negotiate with because of its ever-present hubris.

Dell officials knew how desperate Triad economic officials were for the 1,400 to 1,700 pledged jobs, even though most of the jobs would pay only \$9.50 to \$14 an hour.

That's why an incentive bidding war broke out among the Winston-Salem site and those in Greensboro, High Point and Davidson County. Dell ultimately was made eligible for record incentives of up to \$38.7 million locally and up to \$267 million from the state.

By comparison, the average hourly wage for Herbalife is projected at \$19.32 an hour.

Goudis pointed out Wednesday that a main reason Herbalife chose Winston-Salem -- after cozying up to Gwinnett County, Ga., on two Greenfield sites -- was that the local jobless rate was significantly higher than in the greater Atlanta area. He also joked about the blitz of local media coverage as signifying "that we must be in a small town."

The Triad's unemployment rate was 8.8 percent in October, while Gwinnett County was 7.3 percent, according to U.S. Bureau of Labor Statistics data.

"We were very, very far down the path of choosing between two sites in Atlanta," Goudis said. "This opportunity was presented to us, and we took the meeting."

"I could tell from the team on the other side there was some hesitancy about how much effort. I said that we're very open-minded, and if you make the right situation for us, this would be something we would like to pursue."

Goudis said the local and state incentive packages were "very aggressive and very competitive, quickly becoming our preferred state."

During his opening remarks Wednesday, Goudis acknowledged Dell's shadow, saying in an attempt to reassure that "as long as there is a global obesity epidemic, our products will be around and this plant will be around."

"Our products are uniquely positioned to take advantage of that."

Attack on Herbalife

The other shadow hanging over Herbalife comes from a very vocal critic, activist hedge-fund manager Bill Ackman who is shorting Herbalife's stock and labeling the company as a pyramid scheme.

Ackman's accusations, which Herbalife has called "bogus" and "blatant market manipulation," sent the company's share price down 12 percent Wednesday and nearly 10 percent Thursday.

Ackman is founder and chief executive of Pershing Square Capital Management LP., which holds \$11 billion in investments.

A pyramid scheme typically is defined as an investment strategy, considered by some as illegal, where contributions from new investors are used to pay off the original investors.

Ackman's main points were that Herbalife engages in unfair and deceptive practices. Among his examples were the company's policy of eliminating countries from individual breakouts when sales fall below a certain level; running a distributor network in which it is hard to make a steady profit as an individual; and selling commodity products at an inflated price.

Tony Plath, a finance professor at UNC Charlotte, said Herbalife's business model, despite its recent financial success, is a reason for concern.

"Pershing Square has real street credibility here, and Ackman is well regarded and makes a solid case for his short sale," Plath said.

"So what do you do in Winston-Salem? Be optimistic, and hope for the best. But remember it's much better in business to be a little cynical than a lot naive."

John H. Boyd, a principal in The Boyd Co. Inc., a site-location consulting company, said there's irony in the two site announcements because both are considered transitional.

"Dell ushered in a new PC-based information-technology growth sector, and Herbalife is ushering in a new niche industry based on America's growing affection for healthy, nutritional foods and dietary supplements," Boyd said.

"Dell did not work out and fell victim to pivot points in the fast-changing, global high-tech business landscape."

Boyd said he has higher hopes for Herbalife fulfilling its transitional promise.

"The potential for this plant the second time around seems far greater since it is grounded not so much on the vagaries of the high-tech business world, but on such fundamentals as an aging and better informed U.S. population and a growing demand for healthier, more nutritional foods and a healthier lifestyle," Boyd said.

"These are building blocks that are not going away anytime soon."

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