



## **2008 State of the Industry Address** **by: Alvin E. Rice, President**

Well, once again it's time to talk about the State of the Industry. In my address today, I'm going to be throwing out a lot of numbers and percentages. These statistics are important because they provide insight into industry trends and challenges, but they are not the most important items that I want to leave you with. The most important things that you can take away from this address are to (1) recognize that Multi-Pure has been an industry leader for last the 37 years and continues to be so today, (2) Multi-Pure is constantly developing and striving towards future goals in both our distributor program and product performance, and (3) Multi-Pure continues to provide our distributors with the formula for success and empowers each distributor to control their own destiny.

With that being said, it's time to jump into the numbers and discuss just what the current state of our industry is. BUT before we do that, we need to make sure that we establish and understand exactly which industry we're in. As my former colleague and long-time friend, Don MacCrossen, once described it to me, our industry is made-up of two equal components – (1) the opportunity and (2) the product. They're like the Siamese twins of this business; they're inseparable. You need the opportunity to sell the product and a high quality product to assist in making the sale. You need both to be successful. You can't focus on the product and ignore the opportunity and expect to reach the highest level of success.

So let's talk about the first component – the opportunity. Merriam-Webster's Collegiate Dictionary defines opportunity as, "a favorable set of circumstances fit for the time with a good chance to succeed". In order to understand the opportunity side of our industry, it's important to understand what drives the opportunity, which is the same as most things in the United States – the economy. There are a variety of elements which impact our current economic state. These elements are measured through a variety of indicators, probably the most prevalent being the Dow Jones Industrial Average which is monitored and reported on daily in almost every newspaper across the country.

So what is our current economic state? Well, as this graph of the Dow Jones Industrial Average illustrates, over the course of the last year we have entered into a state of economic uncertainty. The truth of this statement is reflected in the daily headlines of newspapers across the country. Fortunately or unfortunately, depending on the circumstances, the performance of the stock market also affects other aspects of our economy. For example, stock market performance has a direct correlation with home sales. As you can see, sales of both new and existing homes in the United States have dropped off considerably over the last two to three years. The drop in new home sales has had a negative effect on appliance sales including drinking water systems that are installed in new homes. Fortunately, Multi-Pure has been an after-market product for this segment of the industry. Unfortunately, this drop in home sales also tends to impact the

number of jobs available to the public. With unemployment rates higher today than they have been in the last two years, more and more people are looking for opportunities to earn additional income. Another major contributor that is adding pressure to our current economic state is the increasing cost of energy. This increased cost of energy can most easily be observed in our fuel prices. As you can see here, the average price of regular gas in the U.S. has risen dramatically over the last four years with a total increase of approximately 114%. Therefore consumers are looking for ways to save money in other spending habits in order to have money for essentials like gasoline. And by having a Multi-Pure drinking water system, an individual can save substantial amounts of money on their drinking water.

Because of the current economic uncertainty and the increased unemployment rates, people are searching for opportunities to earn additional income. As they search for alternative sources of income, many of these people are learning about the Direct Sales industry. Over the last ten years, the direct sales industry has seen a steady year over year increase in sales, with total sales exceeding \$32 billion in 2006. Additionally, as a result of the increase in unemployment, the number of salespeople within the direct sales industry has also increased steadily over the last ten years. In 2006, the number of salespeople exceeded 15 million, which represents approximately a 63% increase since 1997.

You folks have chosen for a variety of different reasons – whether it be additional income, public health concerns, or environmental awareness –to participate in Multi-Pure’s network marketing program, which is part of the direct sales industry.

So let’s take a look and see who is participating in the direct sales industry... According to numbers released by the Direct Sales Association, as of 2006, the direct sales industry salesforce was approximately 85% female and 15% male. The large percentage of female involvement can be explained by two main factors – (1) the number of stay-at-home moms and housewives who are looking for part-time flexible work that won’t interfere with their family commitments and (2) the large number of direct sales programs with products that specifically lend themselves to the female gender, such as cosmetics, dietary supplements, scrapbooking, etc. Anything that relates to the home, especially the kitchen, is highly influenced by the female. Our product is no exception.

Another interesting demographic that the direct sales association released was the educational background of the salesforce. As you can see from this pie chart, you don’t have to be college educated to succeed within the direct sales industry.

The educational background covers the entire spectrum with 24% of participants being a high school graduate or less, 32% having some college, technical or trade school education, 36% being college graduates and approximately 8% of participants having postgraduate education. Really, anyone can be a part of the direct sales industry.

One of the biggest benefits of working in direct sales is the ability to set your own schedule or as many companies promote – it’s the opportunity to be your own boss. Approximately 90% of the direct salesforce work only part-time, which is defined as less

than 30 hours per week, while only 10% of the salesforce works full-time. Of the hours worked, only 46% of the time is actually spent on selling the product or service. Approximately 20% of the hours are spent on administration and paperwork and 15% is spent recruiting and sponsoring others.

As part of the direct sales industry, it is important to develop your own sales strategy. How do you make contact with potential customers? How do you go about selling the product? Many of you have already developed successful tried and true strategies, but for those of you who are still looking for answers to these questions, I thought the following information might prove useful. Approximately 67% of direct sales are done through person-to-person selling, while only 29% is done in a party plan or group selling type format. And while many folks here have been successful at hosting water parties or presenting to groups, don't lose sight of the fact that over two-thirds of direct sales are made person-to-person.

These person-to-person sales are done in a variety of different venues. According to the Direct Sales Association, approximately 75% of direct sales take place face-to-face, of which 67% of the sales are in the home while 4% each are in the workplace and in temporary locations (fairs, shows, etc.). The remaining 25% of direct sales that take place remotely are pretty much split evenly between telephone sales at 12.8% and internet sales at 11.6%. These numbers are consistent with what we see at Multi-Pure with only approximately 10% of our total sales taking place over the internet.

So in summarizing the direct sales part of our industry which represents the opportunity, the Multi-Pure opportunity is in an era most favorable for success. The economic trends are actually in our favor as people begin to look for additional and alternative sources of income. It is important that we as a Company, and you as distributors, take advantage of the current economic situation and the success of the direct sales industry which continues to grow. The more people you get involved, the more you assure your own success.

The second part of our industry is where we translate the opportunity and apply it to our product. If you were going to go into the direct sales industry, you would want the largest customer base possible, right? ABSOLUTELY! You would want to chose to market the product in demand by the largest percentage of people. That's why Multi-Pure's products are so great. Our product has 100% of the current population as its market base. Not everyone uses lipstick. Not everyone drinks beer. Not everyone takes vitamins. And oddly enough, not everyone wears shoes. BUT everyone drinks water. I don't know about you, but I think a product with 100% of the population as its target market is a desirable feature in choosing a product to represent.

With that being said, I accept the fact that not everyone is necessarily ready to make the investment for a product that would give them healthy drinking water. However, over 90% of the population drinks water from a municipally treated water supply source. And according to a recent WQA survey, 55% of the public surveyed were very concerned about the quality of their tap water. The treatment processes used by municipalities have

created over 500 disinfection by-products, many of which have been identified as harmful to human health and others that are continuing to be studied. Historically, a lot of emphasis has been placed on trihalomethanes, which have specifically been linked to a variety of cancers – liver, kidney and bladder cancers, and other reproductive problems. In addition, as you know, virtually every household has become concerned about lead leaching from household plumbing. Lead contamination has proven to be a major health concern. Consumer awareness of the health effects cause by lead has continued to increase as the prevalence of contamination has grown, with lead most recently being found in the red lipsticks of several major manufacturers as well as toys for children.

Increased consumer awareness regarding the quality of drinking water is indisputable. This awareness is demonstrated clearly through the increase in bottled water consumption. The public consumed 56% more gallons of bottled water in 2007 than it did in 2002. Even with the current state of economic uncertainty, more people today than ever before are buying bottled water. Five gallon bottled water delivery service has gone from \$5.00 per bottle in 1997 to today's astronomical rate of \$9.49 per bottle, which equals \$1.90 per gallon. This clearly shows that the average consumer does not have any confidence, faith or trust in the quality of drinking water coming from their tap.

This increase in bottled water usage continues to take place despite the increase in the cost of bottled water, which has primarily been driven by the increase in the cost of energy. From 2006 to 2007 alone, the average cost per gallon of bottled water increased 27% from \$2.23 per gallon to \$2.84 per gallon for the pricey small bottles sold in supermarkets and convenience stores. This increase in the consumption of bottled water is what drives the product side of our industry, as has been consistently demonstrated and proven over the last 37 years. The consumer's awareness and concern over tap water encourages them to look for alternatives. Typically, the first thing the consumer will do is begin buying bottled water because it is the quickest and easiest perceived solution to their problem. As the consumer's awareness continues to expand, the cost, inconvenience and the environmental unfriendliness of bottled water drives them to look for other alternatives.

Often times, these consumers are lured in by major name players who spend millions of dollars a year promoting their products. As a result of the afore-mentioned factors, many consumers end up purchasing either a faucet-mount or pour-through model filter. As the consumer's awareness continues to grow, they become frustrated by the product's limited performance and expensive on-going maintenance costs of replacement filters and parts.

Each of these consumers is a prospect. They are waiting to be told or shown a better alternative to their current filter choice. They are looking for something even more convenient, less bulky and obtrusive, less expensive and something with a higher quality of water. According to a survey published by Mintel International Group, currently 47% of the population uses bottled water. This segment of the market leaves endless customers that don't have to be convinced about the importance of pure water; they just have to be shown the path to a better solution.

Multi-Pure has been fortunate that for the entire 37 years we've been in business, we've never had to go out and promote the need for our product or the benefits of drinking pure water. We directly benefit from the consumer's awareness generated by all of the media exposure regarding the dangers of tap water and even more recently, the dangers of bottled water. The media promotes our product for us. They educate the consumers for us. The media creates demand for our product each and every day that a story is printed in the newspaper or airs on your TV or your radio.

All Multi-Pure has had to do is develop and design a product that provides a better quality of water, more conveniently and less expensively than the alternatives, and allow our customers, which is you, to participate in this ever-growing industry.

To take full advantage of this opportunity, Multi-Pure had to be the best and we ARE the best. And now, here's the beautiful part – you don't have to take my word for it. You don't have to believe anything I say about our products. Just ask yourself, as a customer, is Multi-Pure the best? YES! But if that's still not enough, you can look to the 3<sup>rd</sup> party, independent testing performed by NSF which has been accepted by both government and scientific bodies as being the industry standard. As of today, Multi-Pure continues to remove the widest range of contaminants that have entered into our nation's water supplies. 37 years after Multi-Pure opened its doors, there are 5,365 products certified under NSF. Of those 5,365, only 1,031 are certified to remove contaminants of health concern. Compare those numbers to just 5 years ago. There were only 3,898 products certified under NSF, of which, only 796 were certified to remove contaminants of health concern. There are approximately 1,500 more products certified today than there were just five years ago. No doubt that several new companies have entered into the marketplace and contributed to those numbers. However, the most important thing to note is that the product most suited to address today's contaminant concerns is Multi-Pure. Thirty-seven years ago we had the best product and today we continue to stand alone.

The Multi-Pure products have been unsurpassed in quality since the day we started to manufacture. Multi-Pure has been the solution to pollution problems of the past, present and future. We were the first to be certified to reduce lead. We were the first to be certified to reduce asbestos. We were the first to be certified to reduce cyst. We were the first to be certified to reduce Chloramine, Toxaphene, Chlordane, PCBs and most recently, we were the first to be certified to remove Arsenic V. Our products have always removed more contaminants than any other product out there. Those "extra" contaminants we've removed over the years have typically become the contaminant concerns of tomorrow. For example, Chlordane, Toxaphene, and PCBs have all been identified as endocrine disruptors. The Natural Resources Defense Council has defined endocrine disruptors as a "synthetic chemical that when absorbed into the body either mimics or blocks hormones and disrupts the body's normal functions.

This disruption can happen through altering normal hormone levels, halting or stimulating the production of hormones, or changing the way hormones travel through the body, thus affecting the functions that these hormones control." Based on a recent

conference call I had with NSF, the Environmental Protection Agency has identified over 62,000 endocrine disruptors. These are the problems of our future. More information is available specifically on these contaminants in the packets that have been provided to you.

In addition to our products keeping up with the current and known contaminant concerns, we are constantly watching for contaminants of the future. A perfect example of this is the most recent media blitz on pharmaceuticals being found in drinking water. I have addressed this subject specifically in each of my State of the Industry addresses for the last three years. According to an article published by Chemical & Engineering News, there are over 19.7 tons of active pharmaceutical ingredients introduced into U.S. sewage systems every year. As you know by now, there are currently no standards or test procedures established by the Environmental Protection Agency to address these contaminants, which makes it easy to see why point-of-use drinking water systems are the final barrier to protecting human health. As one industry insider described the situation, “the human race is simply participating in a large scale experiment on the human health effects of pharmaceuticals in drinking water.”

Despite the lack of established standards and test procedures, it has been well documented by the Environmental Working Group, NSF, WQA, and the Natural Resources Defense Council that activated carbon is an effective filtration method for dealing with these emerging contaminants. Multi-Pure drinking water systems, through our activated carbon block technology, have proven to be more effective in the removal of contaminants, than any other activated carbon based systems. As industry standards and testing procedures are established to address the massive concerns surrounding pharmaceuticals, we fully expect and are confident that Multi-Pure will continue its trail-blazing certification record and meet the challenge before us to be certified to make these claims.

In summary, the product side of our industry is very well positioned to help you succeed. Consumer awareness is up. Tap water quality is down. Bottled water consumption is up. Bottled water prices are up. People are trying to save money. Multi-Pure products provide the highest quality drinking water available, as evidenced by our extensive certification listing. Multi-Pure products are the best suited to address today's contaminant concerns and Multi-Pure provides pure water that is more convenient and less expensive. And it gets even better, because Multi-Pure is changing our product warranty and guarantee. Effective immediately, we are changing our unconditional money-back guarantee from 30 days to 90 days. If for any reason you or your customer are not completely satisfied with your Multi-Pure Drinking Water System, Multi-Pure will refund 100% of the purchase price. Additionally, we are extending our warranty coverage for housings. Effective immediately, both our stainless steel and plastic housings will carry a lifetime warranty. The housings will be warranted for use and will be repaired or replaced at no charge provided that the filter has been replaced at least once per year.

So let's get to the bottom line – water IS a necessity and is THE essence of all life. Our goal at Multi-Pure is to prevent pure water from becoming a product that can only be obtained through prescription.

In closing, Multi-Pure is part of a growing industry both in its marketing approach and product performance. We have provided you and any individual who chooses to participate in the direct sales industry, the opportunity for GREAT success. By combining the beneficial economic trends with the Multi-Pure opportunity, the unbeatable Multi-Pure product line, and adding your own drive and determination, you WILL be successful.

Your destiny is in your hands!

Thank you!

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