

Sunrider aims to put tax scandal behind it

The Torrance-based herbal company rebounds years after legal problems crushed sales.

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With its sparkling headquarters building in Torrance and global network of 300,000 distributors, Sunrider International seems to be a picture of entrepreneurial success -- right down to the gleaming red Rolls Royce in its lobby.

The picture is all the more remarkable because the herbal-products company was put on the ropes by criminal charges against its owners and remains a target of critics who say many of its health products are of dubious value to consumers.

"If the entire industry were to disappear overnight, it would have little impact on public health," said Dr. Stephen Barrett, who runs Quackwatch.org.

Sunrider, however, had more to overcome than the slings and arrows of health-supplement critics.

In 1995, Sunrider founder and Chairman Tei-Fu Chen and his wife, company President and Chief Executive Oi-Lin Chen, were indicted by the federal government on charges that they masterminded a money-laundering and customs-fraud scheme to evade \$38 million in taxes.

The indictment followed years of complaints from consumer advocates that Sunrider exaggerated the benefits of its various health supplements. In 1989, Sunrider paid \$175,000 to settle accusations by the Los Angeles County district attorney's office that it made false health claims.

In 1997, the Chens pleaded guilty to tax evasion and Tei-Fu to customs fraud. He served nearly a year in prison; she served six months of home detention. The Chens paid nearly \$100 million in back taxes, interest and penalties and an additional \$4 million to avoid forfeiting the artifacts they were accused of smuggling and undervaluing.

The episode brought business to a near-standstill. But today, there is little hint of that past.

The privately held company boasts \$700 million in annual revenue through its worldwide network of franchise stores and distributors, who hawk Sunrider-brand diet pills, vitamins, cosmetics and snacks directly to customers, often door-to-door.

The company has also become a pillar of the local Chinese American business community, according to Chester Chong, president of the Chinese American Chamber of Commerce of Los Angeles.

"Whatever their background is, all we care about now is that they're a healthy company," he said. "Of course we're concerned about a bad image for the chamber, but all of their history happened many years ago. They're good now."

The Chens say they accomplished the turnabout by learning from their mistakes and focusing on the fundamentals -- rebuilding their company one small piece at a time and taking more care with their business practices, including how they label and promote their products.

The company also joined the Direct Selling Assn., which requires members to go through an ethics screening.

"Challenges make you stronger and work harder," Oi-Lin Chen said. "You can't just do nothing and feel sorry for yourself. We traveled all over the world to hold meetings and open new countries."

The direct-sales company and its army of distributors still focus on herbal supplements - such as Fortune Delight herbal teas and VitaDophilus digestive bacteria packets -- but take care to keep medical claims off the labels.

That hasn't entirely silenced critics. Skeptics contend that herbal supplements, which are not regulated by the Food and Drug Administration, are a waste of money.

"In the few cases in which they work, they don't work as well as prescription medication," said Dr. Henry I. Miller, a fellow at Stanford University's Hoover Institution and former FDA official.

But Sunrider appears to have a niche, with a large base in Asia. China is its largest market -- with thousands of recently opened franchise locations -- followed by the United States, Taiwan, Korea and Hong Kong.

The company's three-story headquarters building in Torrance features a botanical garden and a museum stuffed with Chinese artifacts. Metal sculptures adorn the lobby near the red Rolls Royce -- a gift that Tei-Fu Chen bought as a Valentine's Day gift for his wife.

Around 170 employees work at the headquarters, and nearly 250 are based at a manufacturing plant in the Harbor Gateway area near Long Beach.

Distributors are feted at lavish annual conventions, including one in July at the Anaheim Convention Center.

Customers readily drop \$52.60 for a bottle of 100 Vitalite Slim Caps diet pills or shell out \$67.10 for two dozen 1-oz. bags of cocoa- or cheese-flavored NuPuffs, marketed as a "healthy snack alternative."

Fans include Victoria Baker, 55, a clinical nutritionist from Oceanside who calls Sunrider "the best-kept secret." She dismisses Sunrider's and Tei-Fu's past problems, saying that the company's mantra of cleansing and regeneration saved her life 14 years ago when she had liver problems.

"Once you have something that's good, there's always an adversary," Baker said. "His integrity is impeccable, and we all make mistakes."

The company is still no match for big competitors such as Avon Products Inc., which pulled in \$10.7 billion in revenue last year, experts said. Nutrition company Herbalife Ltd. and cosmetics company Nu Skin Enterprises Inc. took in \$2.4 billion and \$1.2 billion last year, respectively.

"Sunrider's a few rungs down the size ladder, pretty far down the pecking order from the varsity players," said analyst Bret Jordan at equity research firm Avondale Partners in Nashville.

Taiwan native Tei-Fu and Hong Kong native Oi-Lin met in Taiwan. After converting to Mormonism, the couple moved to Utah (where the Mormon Church is headquartered) in 1974.

Tei-Fu studied for a few years at Brigham Young University and then worked as a researcher at herbal companies, boiling herbs in his basement in his spare time. In 1982, he bought herbal company NaturaLife International Inc. and renamed it Sunrider.

The couple moved the headquarters to Torrance in 1987 and then slogged through legal and professional problems for much of the next decade.

Today, Sunrider says it takes more care in the manufacturing and labeling of its products. The Chens' daughters Wendy Teng, 34, and Sunny Beutler, 29, hold leadership positions in the company, and the couple plan to eventually transfer control of the company to their five children.

"When a company exists for so many years, you're bound to encounter some problems," Tei-Fu Chen said. "It happens. You have to learn the hard way."

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