

# Dietary Supplements Attract Private Equity; A Good Trade Association Should, Too

By Carl Hyland, Vice President, Membership Development and Steve Mister, President & CEO, Council for Responsible Nutrition

Private equity (PE) never enters an industry without performing its due diligence. These decisions result from both analysis of past performance and promise of continued growth. Dietary supplements are particularly attractive these days to outside investment compared to other consumer products because consumers are increasingly turning to proactively protecting their health. Even before the pandemic, the supplement market was growing a healthy 6 percent; in 2020, *NBJ* reported the U.S. marketplace grew at twice that rate. So, it's no surprise that dietary supplements are a darling of private equity.

So why their reluctance to engage with the trade associations of the sectors in which they invest? At CRN, we've welcomed numerous PE firms to our board table, and in our experience, these executives are among the most astute members; they know how to connect their companies with our benefits, when to "make their asks" for help, and they appreciate how external threats will impact their asset.

But for every PE firm that embraces their association, there's another that withdraws its acquisition from membership to save the cost of this year's dues. Those investors view trade association membership as an expense on the balance sheet rather than a down payment in their investment. Why is it so many PE executives spend far more on due diligence for acquisitions they will never make than the cost of the trade association to protect the investment they have already made?

In our view, PE investors should insist their acquisitions join, or remain in, industry trade associations because of the benefits membership offers uniquely to PE investors. Here's why:

**1. For starters, associations provide business networking and introductions.** In every industry, who you know matters. Trade associations are filled with potential contacts, customers and partners who can help you accelerate your growth. You might learn from these colleagues, or develop business connections, or identify your next purchase. Even if the sole reason to join is to evaluate other companies for potential investment or acquisition, associations provide those connections.

**2. For bottom-line focused ex-**



**ecutives, membership can improve operating performance.** Having your association staff on speed dial can quickly solve problems peculiar to supplements, suggest options unique to this business, and prevent future regulatory headaches. Staff expertise from the association, available when you need it, saves time, provides a quick return on investment and improves the bottom line.

**3. Association networking helps private equity appreciate the unique sense of community that defines this industry.** To know where you want to go, you have to appreciate where you came from. This industry is the product of many first generation entrepreneurs who created businesses to bring the health benefits of natural products and vitamins to the masses. PE transplants often don't appreciate that heritage, but a trade association does.

To find success, companies need to understand the governing framework in which the industry lives and how it became that way. To enter the supplement industry, you need to develop intelligence for how it's regulated, what bargains were made and commitments forged, and how your company fits in. Trade associations help you navigate.

**4. A good trade association can help keep your best (and your most nervous) new employees:** Encouraging staff engagement with a trade association with deep knowledge of the industry increases the industry savvy, career development and influence of the management team. PE firms can make a statement about their commitment to the broader good by announcing the company is joining—or remaining in—an industry association. It signals you plan to be around long enough to transform the company and want to participate in growing an industry where all boats can rise. When employees experience the connection to larger issues of

the industry, when they have opportunities for committee leadership, when they feel their knowledge and expertise enhanced by education and programming made available from their association, they value the employer that empowers them.

**5. Membership can protect your investment by preventing avoidable disasters.** One call to association staff can avoid a recall, a lawsuit or a marketing mishap. The founding ownership team may have stayed under the radar because the business was not large enough to attract attention from FDA (U.S. Food and Drug Administration), FTC (Federal Trade Commission), states attorney generals, or class action attorneys. Accelerated growth made possible by PE investment brings attention. Membership in an industry trade association is an immersion in understanding risks—and access to experienced hands to avoid and handle these dangers.

**6. Lastly, membership can increase the value of your company.** All other factors being equal, a company has greater sales value if the company executives are board members of their industry trade association, their senior staff have intimate knowledge of industry legal and regulatory risks—and managements' connection with industry leaders and customers is strong and personal. More than 85 percent of businesses that fail are not members of a trade association.

Come to think of it, maybe private equity-controlled supplement companies need their trade association even more than everyone else.



Carl Hyland is the vice president, membership development, of the Council for Responsible Nutrition (CRN), the leading trade association for the dietary supplement and functional food industry.



Steve Mister is the president & CEO of the Council for Responsible Nutrition (CRN), the leading trade association for the dietary supplement and functional food industry.