

Private Equity Loves Dietary Supplements— and Should Love CRN Too



Private equity is enthralled with the dietary supplement industry.

Because consumers are increasingly proactive about protecting their health with these products, dietary supplements are particularly attractive and lucrative opportunities for outside investors.

An effective trade association like the Council for Responsible Nutrition (CRN) can make those investments more valuable and more rewarding.



How can you protect your investment using trade associations of the sectors in which you invest?

Dietary supplement industry forecasted to keep growing

Over the last five years, private equity (PE) firms have purchased a wide range of supplement brands and infused them with cash: Swanson, Nutraceutical Corporation, Reliance, Plant Fusion, Nature's Bounty, Jarrow Formulas, Natrol, MeriCal, Santa Cruz Nutritionals, Bettera Brands, Met-RX, and Vital Nutrients—and that's just the tip of the iceberg.

Even before the pandemic, the supplement market grew a healthy 6% in 2019¹, according to Nutrition Business Journal (NBJ). NBJ and market intelligence agency Mintel estimated the U.S. marketplace grew at nearly twice that rate in 2020 and will grow, on average, 4.6% per year through 2025².

Total US Sales and Forecast of Vitamins, Minerals, and Supplements, at Current Prices (2015-25)

Year	\$ million	% change	Index (2015 = 100)	Index (2020 = 100)
2015	21,315	-	100	74
2016	22,458	5.4	105	78
2017	23,584	5.0	111	82
2018	24,830	5.3	116	86
2019	26,203	5.5	123	91
2020 (est)	28,802	9.9	135	100
2021 (fore)	30,593	6.2	144	106
2022 (fore)	31,377	2.6	147	109
2023 (fore)	32,825	4.6	154	114
2024 (fore)	34,375	4.7	161	119
2025 (fore)	36,125	5.1	169	125

Source: Based on Nutrition Business Journal/Mintel

Many of the aforementioned dietary supplement companies outperformed the market average, so it's no surprise that this industry is a darling of private equity.

1 Reynolds, C. M. (2019, May 24). The Analyst's Take: Dietary supplement sales growth rebounds to 6% in 2018. New Hope Network.

2 Vitamins, Minerals and Supplements Trends: Incl Impact of Covid-19 (p. 16). (2020). Mintel.



Reluctance kills investments

So, why is private equity so reluctant to protect their investments by engaging with the trade associations of the sectors in which they invest?

In the dietary supplement industry, that would be the Council for Responsible Nutrition (CRN), the leading voice for the supplement marketplace, a thought leader for the industry, a respected advocate before FDA and Congress and state legislatures, and a center of innovation and policy development.

CRN has 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 asks” for help, and they appreciate how external threats will impact the valuation of their asset.




Help safeguard your investment

For every PE firm that embraces their association, another withdraws its acquisition from membership to “save” the cost of this year’s dues. Some PE firms view trade association dues as an inefficiency to be sliced away or an unnecessary disbursement that can diminish profits in the next quarter. However, trade association membership isn’t an expense on the balance sheet—it’s a down payment on your investment.

One of the biggest mistakes PE executives make is to spend far more on due diligence for acquisitions they will never make than the cost of the trade association that protects the investment they have already made.

An effective trade association is like an insurance policy on the value of your investment and a critical tool for improving valuation down the road. PE investors should insist their acquisitions join, or remain in, their industry trade association because of the benefits membership uniquely offers to PE investors.



**CRN membership is like an insurance
policy on your investment.
Keep reading for six reasons why.**

1



CRN provides business networking opportunities—and introductions.

In every industry, who you know matters.

As the new executive, how do you meet the right people among your new competitors? Trade associations are brimming with potential contacts, customers, and partners who can help you accelerate your growth.

Effective trade associations like CRN attract responsible companies. You need introductions within this ecosystem, particularly within the association's board of directors who comprise the leaders of the industry—especially if you're an outsider. You might learn from these new colleagues, 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, your trade association provides the connections you need.

2



For executives focused on the bottom line, CRN membership can improve operating performance immediately.

Having your association staff on speed dial can quickly solve problems specific to the supplement industry. Association staff can provide unique insights into this industry and prevent you from wading into regulatory headaches.

PE often brings executives from other sectors to run their acquisitions. While these executives bring invaluable experience for improving efficiency and wise management principles, they lack connection to and understanding of this industry. Staff expertise from the association, available when you need it, saves you time, provides quick answers to everyday problems, and improves your firm's bottom line.

At CRN, our able staff is composed of toxicologists, a naturopath, attorneys, skilled marketing and media experts, lobbyists, and regulatory specialists, all singularly focused on helping our members develop, manufacture and market quality supplements in today's complex environment.

An effective trade association like CRN frees senior executives from chasing down solutions to technical issues so you can focus on strategy and growth.

A photograph of a diverse group of people at a social gathering, possibly a networking event or a party. In the foreground, a man with a beard and glasses is engaged in conversation with a woman with long, curly hair. To the left, a woman with short, curly hair is seen from the back. In the background, other people are visible, including a man in a white shirt and a woman with a scarf. The overall atmosphere is professional yet relaxed.

3

Networking through CRN helps private equity appreciate the unique sense of community that defines this industry.

The dietary supplement industry is the product of many first-generation entrepreneurs who started their companies with a singular objective—to bring the health benefits of natural products and vitamins to the masses. As a result of intensely personal health journeys, these business people sought to commercialize the benefits they experienced first-hand. This philosophy has defined the culture of the U.S. supplement industry and continues to shape its response to policy and relationship with its consumers. PE transplants often fail to understand and appreciate that heritage—but CRN does.

To find success, companies need to understand the governing framework in which the industry lives and how it came to be. Governance of the dietary supplement industry is distinctive—somewhere between the premarket approval regime for pharmaceuticals and the unregulated “Wild West” that is sometimes falsely portrayed by business consultants.

To enter the supplement industry, you need to develop intelligence for how it’s regulated, what bargains were made and commitments were forged—and how your company fits in.

When should you push the envelope, and when do you play it conservatively? A trade association is the compass you need to help you navigate the quagmire.

Private equity transplants often fail to understand and appreciate dietary supplement company heritage—but CRN does.

A man with dark hair and glasses, wearing a blue and white checkered button-down shirt, is shown in profile from the chest up. He is holding a black smartphone to his ear with his right hand and appears to be in a conversation. The background is a blurred indoor setting with warm, bokeh-style lighting. A large blue number '4' is overlaid on the left side of the image.

4

An effective trade association like CRN can help keep your best—and your most anxious—new employees.

PE investment can send fear through upper management—not just the immediate fear of being downsized but the anxiety of having to do more with less, wear multiple hats, and lose connections to the larger world—if they get to keep their jobs.

Encouraging staff engagement with a deeply knowledgeable trade association increases your employees' industry savvy, their career development opportunities, and the management team's level of influence.

By announcing the company is joining—or remaining in—an industry association, PE firms can make a statement about their commitment to the company and the broader good. 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 with the tide.

Studies have found that employees, particularly millennials and younger, regard trade association membership as a significant perk that will keep them more loyal to their employer³. When employees experience the connection to larger issues of the industry, when they have opportunities to shape the industry through 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.

Trade association membership is a reassuring professional constant.

3 Rampton, J. (2015, June 5). Millennials have rediscovered the benefits of joining a professional organization. Entrepreneur.

5



CRN membership can protect your investment by preventing avoidable disasters.

Private equity owners often don't know or appreciate the potential pitfalls for supplement marketers. One call to trade association staff can avoid a costly recall, lawsuit, or marketing mishap. The founding ownership team may have stayed under the radar because the business was not large enough to attract attention from FDA, FTC, states' attorneys general, or class action attorneys. However, accelerated growth made possible by PE investment also brings visibility. CRN's preventative advice and proactive programming can avoid these landmines.

Membership in an industry trade association is an immersion in understanding risks—and access to experienced hands to handle or avoid these dangers. One negative media report that goes unanswered, one onerous piece of legislation that gets enacted, one class action decision that doesn't get appealed and overturned—each can tank your investment.

One reason dietary supplements are performing so well is the industry's ability to influence the larger regulatory and policy environment through collective action—which has largely been orchestrated by trade associations. From retail “blackout days” leading to the passage of DSHEA, to the collective support companies exhibited for mandatory adverse event reporting; from the voluntary programs that have demonstrated a discipline to self-regulate this community, to the broad consumer education programs that built trust, these all required collective efforts to succeed. It's no wonder *CQ Weekly*⁴ acknowledged trade association influence in Washington when it wrote, “The supplements industry knows how to work the Hill, and usually gets its way.”

Collective effort through trade associations like CRN has handsomely rewarded the industry in return.

4 Zanona, M. (2015, June 1). The Herbal SWAT Team. *CQ Weekly*, 16.

6



CRN membership can help increase the value of your company.

When it comes to valuation, statistics favor both private equity management and trade association membership. A recent study demonstrated employment grew 13% when private equity investors bought privately owned companies⁵. Other recent research showed more than 85% of businesses that fail are not members of a trade association⁶. Thus, the combination of positive forces from PE investment and membership in an effective trade association can complement your business's needs and spur growth.

All other factors being equal, your acquisition has greater revenue potential if:

- Company executives are board members of their industry trade association;
- 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% of businesses that fail are not members of a trade association.

Given the evidence, can you afford not to be in a trade association?

Perhaps it is private equity-controlled supplement companies that need their trade association even more than everyone else.

5 Parmar, H., & Kelly, J. (2019, October 3). Everything Is Private Equity Now: The Returns Are Spectacular. But There Are Catches. Bloomberg.

6 Over 85 percent of businesses that fail are not members of an association. (2020, June 2). The Small Business Site.

Here's what you should do next:

Before you acquire a dietary supplement company, find out if it is a member of the Council for Responsible Nutrition. If not, make membership one of your first foundation-shaping decisions and join.

If your acquisition is already a member of the Council for Responsible Nutrition, schedule a call with our team to learn how we can help acclimate your team to the industry and all we have to offer.



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About the Council for Responsible Nutrition

The Council for Responsible Nutrition (CRN), founded in 1973, is a Washington, DC-based trade association representing 180+ dietary supplement and functional food manufacturers, ingredient suppliers, and companies providing services to those manufacturers and suppliers.

CRN companies produce a large portion of the dietary supplements marketed in the United States and globally.

In addition to complying with a host of federal and state regulations governing dietary supplements and food in the areas of manufacturing, marketing, quality control, and safety, our manufacturer and supplier members also agree to adhere to additional voluntary guidelines, as well as to CRN's Code of Ethics.





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