Major Trends in Dietary Supplement Contract Manufacturing Are Changing the Name of the Game

By Melissa Kvidahl [2]

Four trends identified as most influential in the pharma space—emerging markets, consolidation, upstream services, and company differentiation—are also shaping contract manufacturing as it pertains to natural products.

Last year, management and technology consulting firm Clarkson Consulting released its 2014 Contract Manufacturing Trends report, focusing mainly on the dramatic changes in the pharmaceutical industry. But while natural products are often depicted as the anti-pharma, sophisticated manufacturing practices are quickly closing any remaining quality gaps. And ultimately, experts agree that the four trends identified by Clarkson as most influential in the pharma space—emerging markets, consolidation, upstream services, and company differentiation—are also shaping contract manufacturing as it pertains to natural products.

Emerging Markets
When it comes to products, the natural industry is experiencing increased demand in a number of areas. According to Kathy Paffendorf, sales consultant in contract manufacturing at Pharmachem Laboratories Inc. (Kearny, Nj), probiotics represent one area of untapped potential, as “the estimates for growth in this category over the next five years are impressive,” she says. “I believe that with the continuously emerging clinical studies on probiotics, those companies capable of handling live
organisms in a variety of new and existing delivery systems will benefit.”
Probiotics are also on the radar for Sabinsa Corp. (East Windsor, NJ) as options for healthy
supplementation and as recommended therapies alongside prescription drugs. Other areas of
interest include gummy formats (gaining in popularity with adult consumers) and bi-layer tablets,
which are already experiencing popularity in Asia and Europe but haven’t yet hit the mainstream
statewide, says Shaheen Majeed, the company’s marketing director.
But beyond products and deliveries, the biggest emerging market is a geographical one. In the
pharmaceutical industry, reports Clarkson, contract manufacturers are looking to establish assets
worldwide and become part of a global supply network. When it comes to natural products,
country-of-origin concerns, specifically, are opening doors to a similarly international market.
“The Asian consumer is wary of finished goods for consumption made in their markets,” observes
Mark A. LeDoux, chairman and CEO at Natural Alternatives International Inc. (San Marcos, CA). “They
would prefer purchasing from the USA or Switzerland due to quality reputations and systems.” As a
result, Natural Alternatives International has a multimillion-dollar expansion underway at its Lugano,
Switzerland, facility.
Indeed, products made in the USA have a high impact on international consumers, agrees Michael
Schaeffer, president and CEO of Pacific Nutritional Inc. (Vancouver, WA), citing not just Asia but also
Europe and specifically Russia as markets of potential.
Of course, all this expansion demands that companies themselves expand. And, as is the case in the
pharmaceutical industry, natural products manufacturers are exploring two distinct avenues:
consolidation or differentiating services—or both.

Merger and Differentiation
As markets expand in product offerings and across the world, contract manufacturers are finding
that expansion in their own businesses is unavoidable. In the pharmaceutical industry, the answer
has taken the shape of large-scale mergers, as companies aim to reach global partners and expand
capabilities to become one-stop shops for their customers.
“Those contract manufacturers with the capabilities to handle the full spectrum of a customer’s ‘wish
list’ and have a good reputation within the industry for quality are in a prime position to capture
business that has been consolidated,” says Paffendorf of the natural products industry’s similar
landscape, adding that Pharmachem meets demand by offering all aspects of product development,
from conceptualization to finished-product testing. “I regularly see business migrating from contract
manufacturers who are unable to monetarily expand their business to handle the multitude of
regulations imposed to those more established, broader-based companies.”
Ephi Eyal, president and CEO of Innovative Food Processors Inc. (IFP; Fairbault, MN), has observed
consolidation taking shape in three ways: “strategic players investing in contract manufacturing to
drive vertical integration, private equity investing in contract manufacturing to drive growth and lure
strategic players, and private equity rolling up smaller contract manufacturers to create larger
entities with wide-ranging one-stop-shop offerings.”
According to Clarkson, all this movement means that manufacturers are often competing for the
same customers. How companies distinguish themselves in a changing playing field—in pharma and
in natural products—has everything to do with their differentiating services.
“Traditionally, low prices have been key when it comes to contract manufacturing,” says Majeed.
“But with the industry having been the target this year of significant criticism by the legal
community, the mainstream media, and U.S. Congress, there is more focus on quality and innovation
in this area.”
While some contract manufacturers “require all steps to be complete before they touch the
material,” says Majeed, Sabinsa offers customer support in intermediate steps, from rolling and
granulation to blending and milling. “Sabinsa started out as an ingredient supplier in the late 1980s.
We then turned to servicing contract manufacturing needs at the turn of the century,” he adds. “We
now are offering finished dosage forms online and direct to consumers. Our advancements in the
raw-material stage all the way to bottling help ensure smooth workmanship in our finished dosage
forms.”
“Large customers appreciate the one-stop-shop approach and the lower perceived risk of interacting
with larger contract manufacturers,” says Eyal of this strategy also employed at IFP. IFP has
expanded its support, analytical reporting, and consumer insights capabilities as well as innovations
in coating, precision dosing, and microencapsulation.
Upstream services are taking a front seat at Pharmachem, as well, where experts are available to
evaluate trends, recommend formulations, produce raw materials and combinations thereof, and
more. The company even works to connect customers for mutual benefit. “For instance, many times, we have customers that approach us with a new delivery system. Another customer may have ingredient combinations that may be a synergistic fit for that system,” says Paffendorf. “Making the necessary introductions to marry the two for customers just entering the market could be extremely important.”

Costly Measures
All this growth, of course, comes with a hefty price tag. “Contract manufacturers must be able to provide pharma-grade capabilities, if they aren’t already. There shouldn’t be lesser standards for being a natural product manufacturer,” says Majeed. “The argument is always on price—we’re not as expensive as the pharma industry and therefore we cannot adapt their capabilities. This thinking is wrong.” But it is pricey. That’s why investment is the biggest challenge facing natural products contract manufacturers today.

It begins with labeling demands. According to Paffendorf, customers are looking for the necessary documentation to meet DNA testing, non-GMO certification, and gluten-free claims, in addition to organic. As a result, Pharmachem has expanded its lab and its employee base to meet demand. Beyond these types of trends, testing is a huge cost, “from incoming material to outgoing finished products and everything in between,” says Majeed. “It adds up.”

Still, he explains, it’s worth the significant investment up front to be able to offer in-house lab testing and ensure confidence overall. “Now, more than ever, transparent, competent, and robust testing absolutely has to be part of the process,” he says. “If we truly believe in this industry, the band of trust should stretch as far as possible to bring in the best of manufacturing meeting pharma standards, for which critical investments are necessary.”

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