

## Contract Manufacturing

### Considering the Issues in Selecting a Contract Manufacturer

Industry executives report that quality control, timeliness and good manufacturing practices are among the crucial decision markers.

#### What are the strategic benefits of using a contract manufacturer?

**Kurt Schneider, general manager, Nutri Granulations:** A contract manufacturer can be quite beneficial to an end user, simply because it puts all the sourcing, planning and efficiency issues in the hands of the contract manufacturer. In this way, significant cost savings can be realized by not only outsourcing the manufacturing, but also the “hidden costs” of items such as sourcing, planning, R&D and QA/QC. Strategically, an end-user benefits by moving all these costs to the contract manufacturer, and then paying one fixed cost for the end product. It is easier to budget, control and maintain quality using this approach.

**Robert Shapiro, vice president, GSC Blending and Packaging:** First, the barrier to entry in the market is lowered. Many startups do not have the necessary capital and expertise to manufacture products they’ve created. A co-packer can offer turn-key manufacturing solutions to allow the product creator to develop and market their products. Also, scalability—as prices rise and fall, the co-packer has the burden of adjusting production, offering a level, predictable cost. This helps improve profitability. Next, there are geographic advantages, since employing co-packers close to a sales area reduces freight costs and time to market. Finally, co-packers often have technical expertise. They can help refine products to reduce costs or improve functionality.

**Jay Kaufman, president, Paragon Labs:** Brands can focus their attention on marketing issues. A contract manufacturer with its knowledge of best manufacturing practices can put together supplements economically with high quality at a low price point.

#### What are the primary issues to consider when selecting a contract manufacturer?

**John E. Harris, chief executive officer, Nature Labs:** In selecting a contract manufacturer, one issue of particular importance is regularity. Will they be able to produce a consistent product in a timely manner and at a fair price without price increases every time you turn around? Of course, you may not relate to such issues until it is too late. Therefore, do your homework and ask them to sign agreements, such as non-compete, price guarantee and confidentiality. Another issue to bear in mind: “Will my company receive personalized service, or will we just be another file in the drawer?” Your contract manufacturer should be able to identify with your needs and expectations. In other words, they should be on your same wavelength, so to say. Teamwork is the key to turning concepts into real, marketable products.

**Jeff Lind, senior vice president, Garden State Nutritionals:** There are several important issues. First, it’s important to choose a full-service manufacturer that can do much more for clients than simply crank out quality supplements at competitive pricing. We participate at whatever

level is required by our clients, including product concept, formulation, development, scientific analysis, stability testing, regulatory compliance, claims substantiation, international registration, package design and marketing assistance.

Second, in many ways, your contract manufacturer is your partner, and should be subjected to the same scrutiny as any business partner. In the current business climate, it is more important than ever to select manufacturers who are stable, successful, well managed and adequately capitalized. You should consider only those manufacturers that have an established reputation for service and quality, that are duly registered and inspected by all pertinent authorities, and that can demonstrate that they can protect you by carrying ample product liability insurance.

Finally, you should feel comfortable with your contract manufacturer, selecting one who knows how to listen to you, and with whom you feel a strong rapport. We always strive to be sensitive and responsive to the needs of our customers, whether they are seasoned supplement marketers or neophytes in need of constant “hand-holding.” Differentiation and innovation help to give your product the greatest chance of success. Companies should never have to settle for an “off-the-rack” product. Instead, they should select a manufacturer who can help transform a vision into a unique and exciting custom product.

#### Do you have established GMP protocols in your facility, and how important are GMPs and audited manufacturing protocols when a company is selecting a contract manufacturer?

**M. Amirul Karim, president, NHK Laboratories:** NHK Laboratories received an “A” rating in the National Nutritional Foods Association (NNFA) GMP certification program. The company completed a two-day independent audit of all its procedures, sanitation, training, quality control and quality assurance systems. The NNFA GMP certificate certifies that the company uses good manufacturing practices throughout all facets of the organization’s manufacturing processes.

**Kaufman:** We have established GMP protocols for dietary supplements and they are very important. An outside certification or auditing agency can objectively evaluate the quality practices of a contract manufacturer based upon reviewing the contractor’s performance against the established GMP protocols.

**Michael Pinson, manager, Motherland USA:** We practice food GMPs. It is very important to have a set of protocols/standard operating procedures (SOPs), and to foster continuous improvements. We are regularly inspected by local, state and federal agencies to ensure such things as sanitation and proper protocols are met. If a company is to stay in the nutritional supplement business, then these agencies ensure that basic health standards are achieved.

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**Lind:** The future of the supplement industry will depend upon the adoption of uniform standards of quality for the manufacture and analysis of raw materials and finished products. Unless consumers can receive consistent benefits from their supplements, they will ultimately withhold their attention and their money. Adherence to GMPs is an essential element of quality manufacturing. GSN is a fully compliant GMP manufacturing and packaging facility. We are justifiably proud of our "A" rating for GMP compliance by the NNFA. Additionally, we undergo frequent GMP audits by our premier clients, who confirm our GMP compliance either with their own teams or by engaging independent auditors.

GSN also implemented a comprehensive quality system that enables us to achieve our mission of providing a full range of superior dietary supplements to our customers. Our Quality Control department performs extensive in-house testing in our advanced analytical laboratories. Our Quality Assurance department is charged with the planning, implementation, assessment and reporting necessary to guarantee that the products we manufacture conform to the requirements and expectations of our clients.

### How has the downturn in the U.S. economy affected your business?

**Schneider:** We feel it has helped us tremendously. We felt, when we started this business in 1998, we had a great product offering, with competitive pricing and excellent customer and technical support. When the economy turned, our business gained momentum, as our new customers saw us with those qualities, and, given the chance to save money, they gave us the chance to prove what we were touting. As more and more people tried our product, word spread that we were the highest quality product at the most competitive price, and had the customer support to stand behind the product. The economy has been our ally, we feel.

**Shapiro:** The downturn in the economy has been an opportunity for GSC to expand its market share. Companies turn to co-packers in a downturn rather than committing their own capital. This has allowed GSC to expand some of its strong relationships with existing customers.

**Pinson:** We have been fortunate enough to evolve into a contract manufacturer. We started out as a raw material supplier, supplying our own manufactured raw materials. Through our extensive contacts in Asia, we started getting requests for private labeled finished products for export. So we decided to make the capital investment into contract manufacturing equipment and hired experts to operate this equipment. We also hired various consultants, herbalists and nutritionists to help develop and formulate our private label line. In a sense, we became a "seed to shelf" supplier of raw materials and contract manufacturing services. This afforded us the ability to reduce the number of middlemen involved with basic contract manufacturing, thereby allowing us to cut a lot of the costs typically associated with production. Also, in June of 2001, we purchased a new production and warehousing facility. We designed the floor plan to accommodate and run a modified just-in-time production.

### As a contract manufacturer, what are your projections for industry growth and up-and-coming products in 2002?

**Karim:** We expect our industry to pick up in the second calendar quarter of 2002. We see continued demand for glucosamine, chondroitin and MSM products. In addition, although there is increasing scrutiny of ephedra-based products, the sector continues to grow.

**Harris:** As many companies find safety in diversification, we expect more opportunities as contract manufacturers. By offering a wide range of services and by introducing novel products, we look forward to developing new relationships and subsequently an enhanced bottom line.

**Lind:** We don't have a crystal ball that can forecast industry growth. In our estimation, consumers are still buying supplements at the same rate. They're just buying them from different channels. Our job is to follow the customer. Fortunately, we are a research-driven company, and do not need to rely on the "pipeline" to supply us with new ingredients. We have quite a few new concepts on the drawing board, including proprietary and patented new ingredients, dosage forms and delivery systems. We are most excited about our research into new ingredients for appetite control and weight loss. Considering the continuing controversy over the fate of ephedra products, we believe that our discoveries can position our clients to make a significant impact upon this very large segment of the market.