



## EXECUTIVE INSIGHTS

# Tracking the Transformation: CDMOs in Nutrition and Beauty

As consumer needs evolve and brand expectations rise, contract development and manufacturing organizations (CDMOs) serving the nutritional supplements and beauty sectors are adapting to meet these shifting demands — from format expansion and broader service offerings to regional specialization and deeper capability sets.

L.E.K. Consulting's proprietary CDMO database, "CDMOlodox," tracks capabilities, services and specialization across hundreds of nutrition and beauty CDMOs in North America and Europe. These competitive dynamics provide critical context for investors and operators evaluating where the market is headed and how to identify winning platforms.

## Positive tailwinds for the CDMO sector

There are several macro factors driving the attractiveness of this market:

- **Large and growing markets:** Nutrition and beauty categories continue to experience steady mid-single-digit growth driven by sustained consumer demand.
- **Recession-resilient segments:** These categories have proven durable during economic downturns — for example, according to the Nutrition Business Journal, nutritional supplement sales grew roughly 6% annually during the global financial crisis of 2007-2009.
- **Indexed access to attractive categories:** CDMOs offer a way to participate in the long-term growth of the nutrition and beauty markets without exposure to the volatility or life cycle risk of individual consumer brands.
- **Increase in outsourcing:** Brands are increasingly turning to CDMOs to manage complexity, reduce regulatory burden and increase speed to market with innovation.

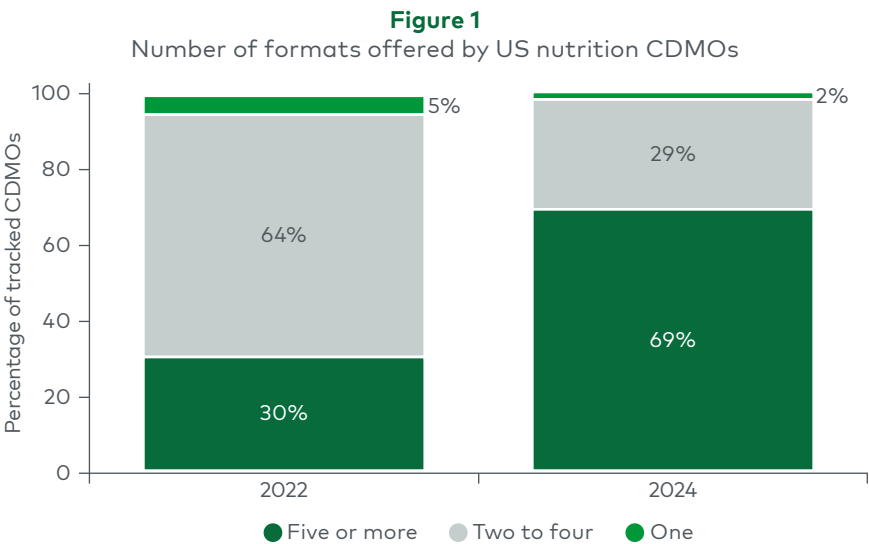
- **Sticky customer relationships:** CDMOs benefit from recurring revenue streams and usually sticky customer relationships — though customer concentration and evolving brand strategies can present ongoing risks.
- **Fragmented market with consolidation potential:** The sector remains highly fragmented, with opportunities for roll-ups and platform creation.

What the data tells us: Trends from the front lines

To better understand how CDMOs are evolving — and where the strongest opportunities lie — we analyzed data from CDMOindex. The data reveals clear shifts in format expansion, capability development and regional specialization.

The rise of one-stop shops

To meet expanding brand demands, CDMOs are increasingly positioning themselves as one-stop shops — broadening their capabilities to serve a wider range of product types and services. This breadth allows CDMOs to grow share of wallet with existing customers by supporting more formats across the product portfolio. This increasing breadth is particularly evident in nutrition, where the share of U.S. CDMOs offering five or more formats jumped from approximately 30% to about 70% between 2022 and 2024 (see Figure 1).



Note: CDMOs=contract development and manufacturing organizations  
Source: L.E.K.'s CDMOindex

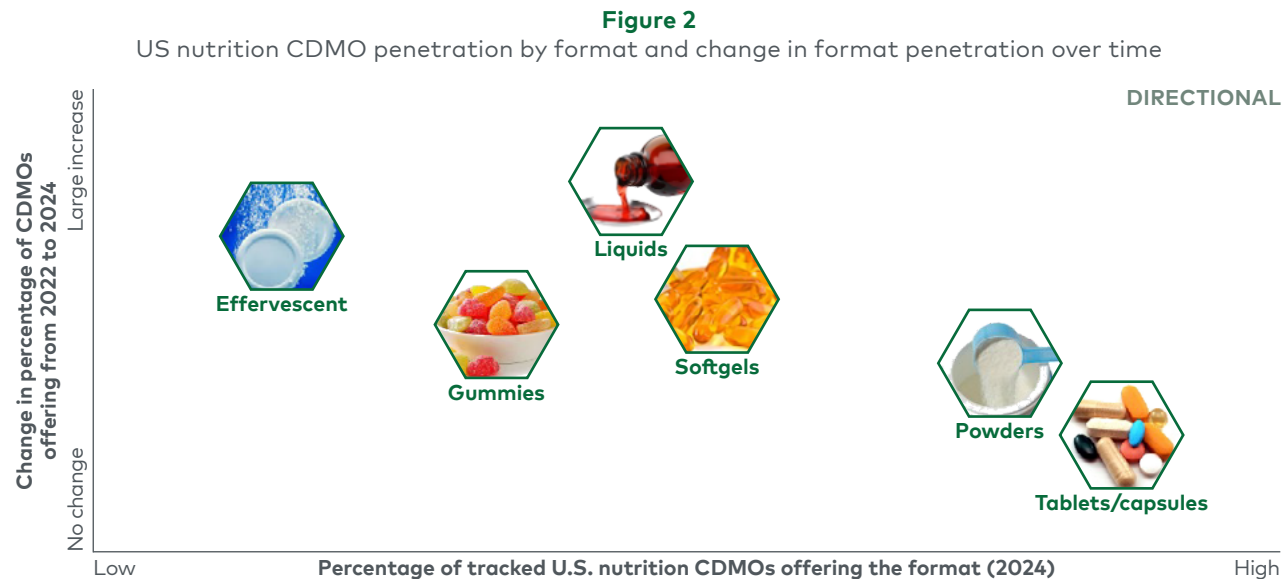
In Europe, a similar multiformat focus is evident, especially in the U.K. Over 85% of tracked nutrition CDMOs offer at least two formats, with roughly 20% offering five or more — underscoring a strong skew toward broader capabilities.

That said, the type of formats each CDMO offers is evolving. While tablets and capsules are still common, they’ve lost share of consumer spending in the broader retail market as shoppers gravitate toward more innovative and user-friendly formats — particularly gummies. For example, the share of U.S. CDMOs offering gummies rose 15 percentage points from 2022 to 2024, reflecting widespread efforts to capture rising consumer demand. Many CDMOs as well as brands invested heavily in gummy capacity during this period.

Since then, however, the post-COVID-19 supply-demand balance has shifted — with some CDMOs struggling to fill lines amid rising competition. For investors, it’s important to assess whether recent or planned expansions are aligned with sustainable demand or at risk of leading to underutilized assets and increased margin pressure.

Effervescent powders and liquids are also gaining traction, though they remain less commonly offered than tablets, capsules and powders across the tracked CDMO landscape. This growth is underpinned by consumer preferences and demand as effervescent powders and liquids allow for easier consumption compared with pills, more enjoyable flavors and taste (e.g., carbonation) and often better absorption of nutrients.

Figure 2 illustrates the relative penetration by format, with powders and tablets/capsules being highly penetrated mature formats, while effervescent powders, gummies and liquids have relatively lower penetration but their popularity is increasing more rapidly.

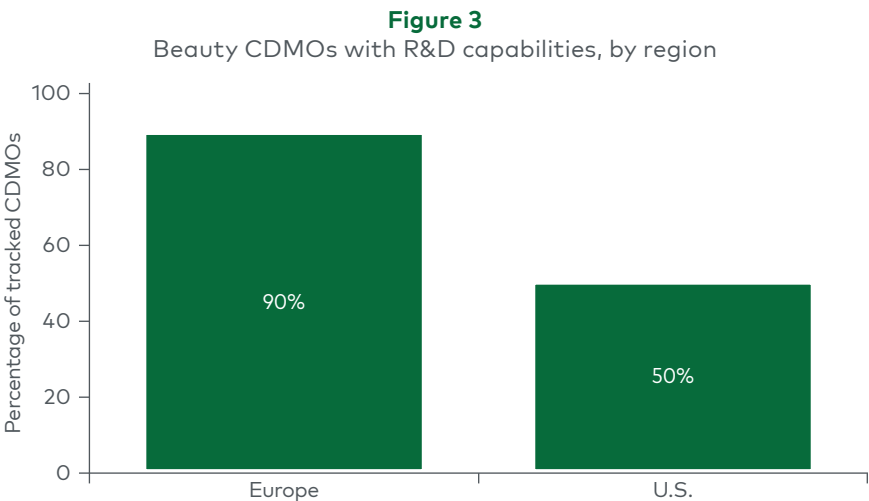


Note: CDMO=contract development and manufacturing organization  
Source: L.E.K.'s CDMOIndex

In beauty, U.S. CDMOs have also expanded format capabilities. For example, topical capabilities (e.g., skin and body cream, lotion) surged from about 70% to almost 95% of tracked CDMOs, while those offering hair care rose from approximately 50% to nearly 75%. Even traditionally lower-penetration categories like color cosmetics saw a jump in penetration — from roughly 40% to about 65% — reflecting the broader mandate of CDMOs to expand capabilities and win customer share.

**Innovation inside: Expanding end-to-end services**

As brands seek faster time to market and greater innovation support, CDMOs are evolving from contract fillers to fully integrated partners. Formerly considered value-adding, services like R&D support or formulation development are now baseline expectations. However, there are some stark regional differences. R&D capabilities are present in 90% of European beauty CDMOs — compared to just 50% in the U.S. (see Figure 3). This gap highlights the greater emphasis on outsourced innovation outside the U.S. market.



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Source: L.E.K.'s CDMOIndex

**Geography matters: Regional specialization in focus**

Regional consumer preferences continue to influence how CDMOs shape their service offerings — particularly in terms of product format and specialization. For example, in nutrition, gummies have become a significant delivery format in the U.S., where 35% of CDMOs offer gummy manufacturing. This contrasts sharply with Europe, where only roughly 15% produce gummies. This difference reinforces how local consumer preferences and category maturity shape CDMO investment and capability development across regions.

## Key diligence areas for investors

For private equity investors evaluating this dynamic and fragmented market, diligence typically falls into three core themes:

### 1. Strategic fit

#### Service scope and specialization

- Does the target offer end-to-end services, and where does it stand out in format complexity, technical capabilities or formulation depth?
- Is the production model geared toward long-run, established stock-keeping units or optimized for short runs that support innovation and speed to market?
- Is the company active in codeveloping new products with clients? Does it invest meaningfully in R&D, such as by maintaining dedicated innovation teams or allocating a portion of revenue toward product development?

#### Geographic footprint

- What end markets is the target serving — both by customer location and shipment destination?
- Does the company have any region-specific capabilities or regulatory expertise that give it an edge?

#### Market fit

- Are its offerings aligned with high-growth categories and channels and emerging consumer trends?
- Is there clarity on which categories drive current revenue versus those prioritized for future growth?

### 2. Commercial strength

With strategic positioning defined, the next lens is commercial strength — how the CDMO attracts, converts and retains valuable customers.

#### Commercial model

- How is the sales team structured and incentivized? Is there a centralized commercial team, or is the model factory-led (in multisite platforms)? Does it include dedicated business development resources, and how does the team approach target selection?
- What is the company's track record in customer retention net of churned business and winning profitable business?

- What is the company's pricing strategy? How does pricing benchmark across competitors? How can differentiation unlock pricing power?

### **Customer dynamics**

- How concentrated is the customer base?
- What types of clients does the CDMO serve — including the size of the organization (e.g., small/emerging brands vs. large global players), geographic focus (local, regional or global) and customer model (e.g., traditional brands, digital-first, multilevel marketing or retailer-owned)?
- Are key customers gaining or losing market share?
- How satisfied and loyal are its customers?
- Is there evidence of cross-selling across sites or business units, particularly in multi-entity platforms?

## **3. Executional excellence**

With commercial fundamentals established, the final lens is execution — assessing whether the CDMO can consistently deliver high-quality products at scale or offer the flexibility required for faster-moving or more specialized customers.

### **Operational strength**

- How reliable is delivery performance?
- What do return rates and margin trends suggest about efficiency and scalability?
- How modern is the facility footprint, and can its infrastructure and automation scale to support customer demand and profitability?
- How well is capacity managed, and how much headroom exists for scale-up or future growth?

### **Quality and compliance**

- How robust are its quality systems and documentation practices? Does the company hold relevant certifications (e.g., GMP, NSF)?
- Are there any recent violations, recalls or audit concerns?

Taken together, these factors can help identify CDMOs with the greatest potential for long-term value creation.

### Case study highlight: Accelerating growth for a leading VMS contract manufacturer

A top vitamins, minerals and supplements (VMS) contract manufacturer was experiencing declining sales, limited new-customer traction and operational challenges. To reverse this trend, L.E.K. Consulting was engaged to conduct commercial performance diagnostics and an operational health check.

On the commercial side, we benchmarked company performance, diagnosed shortfalls vs. growth plans, evaluated customer churn risk and connected customer pain points to variances in operational performance. Operationally, we evaluated key areas such as planning, labor, shop-floor execution and quality — uncovering bottlenecks that limited efficiency. The result was a strategic roadmap that included initiatives to boost throughput by approximately 30% and reduce labor costs by around 15%, setting the client's business on a path to recovery and sustainable growth.

### Our perspective: Why it matters

As brands continue to push boundaries — innovating across formats, categories and geographies — CDMOs are racing to keep up. For investors, the opportunity lies in identifying platforms that demonstrate strategic fit, commercial strength and executional excellence. CDMOs that align with market demand, build durable commercial engines and consistently execute are best positioned to lead in this fragmented, fast-moving space.

Our proprietary CDMO database CDMOlodex provides a granular view of these dynamics — tracking capabilities across hundreds of players.

Whether evaluating a target, building a platform or identifying white space — we can help.

[Contact us](#) to explore how we support diligence, platform-building and long-term value creation in the CDMO space.

## About the Authors

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