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# Business Review



## TECHNOLOGY: VERTICAL EXPANSION

Deborah Duffey  
leads Dermazone  
to manufacturing  
skin care lines.

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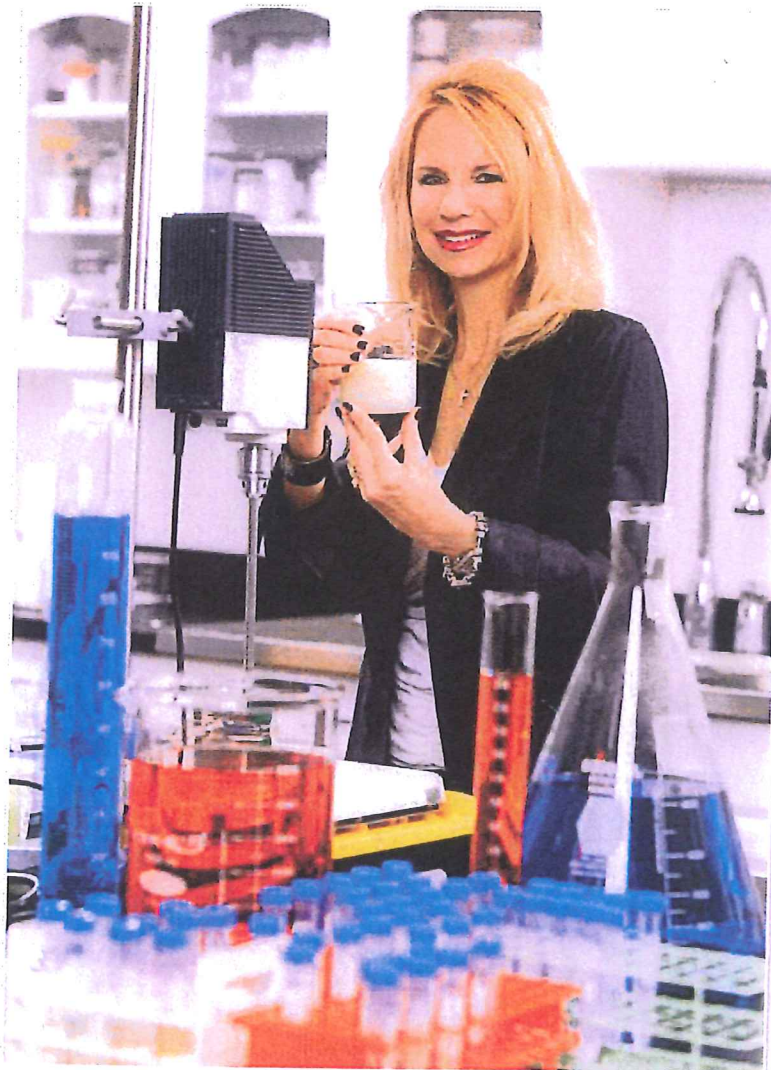
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The Weekly Newspaper for Gulf Coast Business Leaders

## Delivering for clients

BY: ALEX WALSH | TAMPA BAY EDITOR

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Dermazone Solutions, led by president Deborah Duffey, is ready to grow after adding a manufacturing division to its skin care product business.

Many company presidents can explain their business model in one or two sentences. For others, it's not so easy.

In Deborah Duffey's case, a whiteboard is an absolute requirement. "It's a complicated business," she says.

As a business, Dermazone Solutions is part nanotechnology, part cosmetics, and part pharmaceuticals. It's a product designer, manufacturer, distributor and seller as well.

Prior to the company's inception, Dermazone's key assets were under the control of Fountain Pharmaceuticals, a larger technology entity founded by Michael Fountain in the late 1980's.

Fountain is the inventor of a unique "nano-sized" delivery system that can enhance the effects of skin care products. That system, referred to individually as a Lyphazome nanosphere, relies on capsules filled with vitamins and nutrients 1/50th the size of a human skin cell to deliver results. It's the technology key to all the work done by Dermazone in today's market.

And just as Lyphazome is the company's technology key, the key to Dermazone's latest business strategy is to integrate all of its functions vertically to cover everything from research and development to distribution networks to manufacturing capabilities that meet drug standards.

Its current status is a result of a 2006 change, when Dermazone was moved into a 33,000-square-foot facility in St. Petersburg. That move brought three divisions of Dermazone business together under one roof.

Their Celazome brand name, started in 2001, managed the business-to-business side of their distribution. It's the arm that gets their anti-aging and moisturizing products into the offices of doctors, clinicians, and skin care experts.

In 2003, Dermazone added a business-to-consumer distribution aspect to their model as a wholly-owned subsidiary called Kara Vita. Its sales are driven by the "party plan" concept similar to Mary Kay and Tupperware, where a network of roughly 1500 "consultants" host product events, often in their own homes, that feature Kara Vita products.



The latest change took place in 2007, when Dermazone added a manufacturing branch to the mix called dermaCM. DermaCM not only enhances the parent company's ability to control the manufacture of its own product; it also provides a new business venue for Dermazone, allowing it to produce high quality products for other skin care companies.

It can be a lot to manage. But Duffey is prepared to take on the diverse business, and says there are numerous benefits that make the company's current set up the right one.

#### Playing to strengths

Her background isn't in medicine or nanotechnology. Above all else, Deborah Duffey is a businesswoman.

Michael Fountain, the Lyphazome inventor, acknowledges her skill as a "competent and capable" business manager. "She's really focused on meeting a market need," he says. "She's very customer-centric, market driven, and market focused."

Beyond the benefit of controlling each aspect of a product's commercial life ("from mission to market," as Duffey would say), adding on new business capabilities has indeed expanded Dermazone's ability to respond to the market.

For years, Dermazone's positive growth could be attributed to the uniqueness of the products sold under the Celazone and Kara Vita brand names. That uniqueness was driven by a focus on making a product of the highest quality, keying on the technological advantage provided by Fountain's Lyphazome feature.

Growth from those products took Dermazone from three to 33 employees between 2001 and 2009 (not including the network of 1,500 Kara Vita consultants), and put this year's revenue at just under \$10 million.

But just as Celazone and Kara Vita's growth appears to have potentially slowed down, Duffey is excited about the manufacturing side of the business. She says it's already doubled since 2007.

In fact, she projects the business from the dermaCM division of her company will triple in the next five years. With dermaCM, Duffey's business now has another decided advantage in the billion-dollar skin care industry: "We almost never have to say 'no,'" to any other skin care company that needs research, development, manufacturing or delivery, she says.

Growth in product sales could be difficult for Dermazone. Duffey still expects growth between 5% and 20% for Celazone and Kara Vita. But the problem lies in product differentiation.

Dermazone's nanotech-based advantage requires an explanation for most consumers, and for a while that explanation was difficult to deliver. At the company's outset, Duffey says, "Nobody understood 'micro' or 'nano.'"

Now, things have changed. As Duffey points out, "There's even nanotechnology in golf clubs." But even as the consumer base wises up, Dermazone's product uniqueness can still be difficult to explain.

It's why you'll never see Dermazone products at a counter in a department store, where employees may not be prepared to articulate the finer points of nanotechnology.

Instead, the company will rely on informed individuals — like the clinicians they sell to, as well as their consultant network — for educating potential customers. That reliance may lead to a challenge for Dermazone, however. It's one of the issues they'll have to take on while moving forward in a difficult economy.

#### Adapting to the slowdown

With its unique product and business model, Dermazone needs a few quality hires.

Convention says now is the right time to add staff (provided your business can afford to do it), since so many struggling companies have been forced to cut talented employees.

But Duffey says it's not so easy.

She says her company could use some high-level sales directors in each of the three divisions, but given her very specific needs, it has been difficult to find the right people.

As a result, while business experts keep talking about available talent, she's left wondering: "Where are all these great people?"

The talent pool question will linger. But in the meantime, Duffey is making changes to her business to offset the effects of a down economy.

Most notably, the dermaCM division has reduced its production storage capacity. Before, the company would manufacture enough product to fulfill five months' supply. Then five months became three months, and three months became two weeks. Now production is limited to a "just-in-time" basis.

Despite the need for changes to the production model, other core strengths bode well for Dermazone's future business, like its debt-free capital structure. Being debt-free coming out of a recession is a great strategic advantage.

Perhaps most important is its intellectual property, which could continue to provide an advantage over competitors.

The company owns the patent on the Lyphazome delivery system, and three other patent applications related to Dermazone's next generation of products are pending.

Having diversified the business model with the recent manufacturing addition, Duffey is ready for the company's next phase. With all that's going on, she's trying to keep a simple focus.

"I just can't get ahead of myself," she says.

Managing three divisions within a part nanotechnology, part cosmetics, part pharmaceutical company will make that a very important goal.

#### REVIEW SUMMARY

Company. Dermazone Solutions

Industry. Technology

Key. Company's ability to manage a vertically integrated business could translate to a vastly expanded client base.

