

PERSONAL CARE PRODUCT MANUFACTURER GROWS BOTTOM LINE THROUGH R&D AND NEW MARKETS

BACKGROUND:

Davion Inc. is one of the largest private label and contract manufacturers of personal care products in the United States. Davion develops, manufactures, and distributes hundreds of unique product formulations to its clients in both domestic and international markets.

Currently, Davion manufactures and distributes its products through two facilities in New Jersey. The facilities have the capability of manufacturing shampoos, body washes, bubble baths, lotions, creams, nail polish remover, oils, soaps as well as topical OTC and non-medicated powder products, among other items.

In addition, Davion markets an entire line of personal care products under the internationally-recognized “Perfect Purity,” “Select Spa,” and “Take It Off” brand names.

CHALLENGE:

New Jersey Manufacturing Extension Program, Inc. (NJMEP) has had a relationship with Davion for over five years. The Company continually invests in new product development in order to find new ways to expand its client base. While in meetings with NJMEP, the Company discussed these key areas of focus. NJMEP pointed out two ways in which they could assist Davion in these areas. First, NJMEP explained, the time and money dedicated to creating new products is considered Research & Development by the Internal Revenue Service.

SOLUTION:

Davion’s investment in these areas could qualify the company for R&D Tax credits. Secondly, since Davion was already exporting products, the company would benefit from participating in ExporTech, a program designed to assist companies in understanding regulations, growing a business through an export strategy and, most importantly for Davion, make contacts in new markets.

In order to apply for the R&D Tax Credits information relating to the company’s processes and expenses needed to be compiled. NJMEP worked with the Davion team to:

- Identify the qualifying activities and create a comprehensive list of qualified research and development activities for the tax year
- Determine all qualifying expenses (wages, supply expenses, and contract expenses) attributable to the identified research efforts
- Obtain information pertaining to the company’s overall R&D process, including the manner of participation of key personnel and a discussion of the types of documentation maintained by the company as well as additional information pertaining to each of the qualified activities

After all information was gathered NJMEP provided Davion an R&D Tax Credit Study that contained the following elements:

- A summary of the qualified research expenditures (QREs) incurred by Davion during the tax years.
- Contemporaneous financial documentation relating to the qualifying research expenses and activities.

Connect with NJMEP:



- Calculations of Federal and State tax credits for each of the tax year in a format suitable for easily transferring the figures to the appropriate Federal and State tax forms.
- A table summarizing the qualifying research activities carried out by the Company during the tax year.
- A detailed description and sample contemporaneous documentation pertaining to one or more representative project(s) to demonstrate the company's process of experimentation and how the research activities meet the IRS guidelines.
- A company profile containing general information about the Company, its products and/or manufacturing process(es) and its need for carrying out research activities.
- A review of IRS criteria for identifying qualified research activities and expenditures, together with demonstrations as to how the Company's activities and expenses satisfy these criteria.
- A description of the Company's overall approach to research and development, including how various personnel are involved in research activities and the types of contemporaneous documentation that are maintained.

This document enabled Davion to file the appropriate tax documents to obtain tax credits.

Davion registered and participated in the 3-day ExporTech. As NJBIZ reported in an article on Davion, "Davion Inc. has built its North Brunswick-based business around making bargain-priced lotions, shampoos, mouthwash...Conquering this value-priced niche has given the company an opportunity to grab a new group of customers, ones hungry for low-cost, quality products that are made in the U.S.A. They just come with a catch: They are outside our country's borders."

Day one was a general overview of the exporting process and the various services available. Day two offered a more customized approach based on the needs of the companies. And day three was all about the final project: The companies were tasked with developing and presenting an export marketing plan before a room of experts.

Mr. Placa said the presentation was perhaps the most valuable take-a-way from the program. "The process of putting in words and creating the presentation as to how you're going to approach these markets, why someone should buy from you as opposed to China or somewhere else, and talking through it to find where your competitive advantage is helpful," Placa said.

RESULTS:

As a result of Davion investing in learning about R&D Tax credits and participating in ExporTech the company saw many benefits.

- The company was able to identify over \$2.5 M in qualifying research expenses (QREs) over a four-year period.
- Qualified for over \$300,000 in Federal and State tax credits in that four-year period.
- Davion reported in its NIST survey that as a result of the 2012 R&D study and ExporTech the company invested \$550,000 in new products and processes and reported \$5,000,000 in new sales.
- Participating in the 3-day ExporTech program, enabled Davion to learn the do's and don'ts of doing business internationally by interacting with experts in the field and other manufacturers at various stages in the exporting experience.

Connect with NJMEP:





- Davion no longer struggles with determining which leads originating from foreign countries are viable and which are not as they have adapted a five-page questionnaire that a fellow ExporTech participant shared with them in order to help eliminate potential customers that are incompatible with their business objectives.

“We’re one of the largest and one of the only U.S. manufacturers that still make value-priced merchandise,” Mr. Placa said. “I think we’re being aggressive and have won business as a result of our competitors either raising price or failing to control costs on their end. As a result of learning about the R&D Tax credits and participating in ExporTech we now have great new tools in our toolbox to help us grow as a company.”

NJMEP’S MAIN SERVICE AREAS:

- Business Development Services
- Contingency and Emergency Planning
- Destination Innovation
- Energy Alliance Program
- ExporTech™
- Human Resources Solutions
- Lean Business Solutions
- Quality Management Systems & ISO
- R&D Tax Credits
- Six Sigma
- Supply Chain, Transportation and Logistics Services

Connect with NJMEP:

