

The PARAGON Perspective From the President

PARAGON Perspective is sponsored by PARAGON Development

We want to use this newsletter to do the following:

- Share information we have learned that we consider important concerning best practices, trends, successes and failures, conferences, and other elements that will enable all of you to grow your organizations with maximum top and bottom line results.
- Share information about select client initiatives that may be of interest based on technologies, markets, or business needs that you believe could fit within the scope of those client's interests.
- Share personal observations and even humorous items given to us by others.

All issues of *The Paragon Perspective* are archived on our website, so you may easily pass along past issues to colleagues.

The business topic we will focus on today is a success competence of one of our clients in their use of “**Getting Specialty Pricing with ‘Commodity’ Products**”.

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Paragon Update

January has focused primarily on the continuation of projects begun in the last quarter of 2007. We have many projects across a range of industries scheduled for kick-off this month; so more will be communicated next month about those. One common attribute on most of those projects is that the scope is very broad and strategic, with a focus on looking for platform growth.

Conferences

This space is reserved for announcements of conferences or events that may have value to our readers.

PARAGON is not scheduled to attend any major conferences in February but we would be more than happy to make any announcements if a reader sends one in.

Technology Transfer/Capabilities

This section is open for clients, friends, and other newsletter recipients to spotlight technologies they have available for licensing, acquisition, development, or could be available to use. Please send a description of your technology to be posted in this section for future newsletters. Inquiries can either be sent directly to those who have posted information, or, we could forward any/all inquiries to you. This section highlights non-client project technologies.

This newsletter has a distribution of several thousand individuals who are primarily in new business development, so the audience has the potential to generate legitimate interest. We do reserve the right to withhold posting any technology closely related to ones in which we have a client conflict.

Technologies of Interest

We currently have clients interested in the following items

1. New high performance composite materials for strategic investment.

2. New pharmaceutical 'non-active' materials, chemistries, or even processes.
3. Environmentally friendly replacement/substitution chemistries, particularly in personal care. A critical criterion is that it must have strong IP that could be acquired. (Very high interest)

Anyone with technologies fitting the above should contact us and we will forward the responses to our clients so they can contact you directly.

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Quotes of the Month

- "If moral behavior was simply following rules; we could get a computer to be moral." *Samuel P Ginder*
- "Everything has been thought of before, but the difficulty is to think of it again." *Johann Wolfgang von Goethe*
- "The real secret of patience is to find something to do in the meantime." *Several authors*
- "Seek not every quality in one individual." *Confucius*
- "You may find the worst enemy or best friend in yourself." *English proverb*
- "Time has a wonderful way of weeding out the trivial." *Richard Ben Sapir*
- "Democracy is like a raft. It won't sink, but you will always have your feet wet." *Russell Long*
- "There are two ways of spreading light. To be the candle or the mirror that reflects it." *Edith Wharton*
- "Example is not the main thing in influencing others. It is the only thing." *Albert Schweitzer*
- "Tact is the rare ability to keep silent while two friends are arguing and you know both of them are wrong." *Theodore H. White*
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Interesting Words

Superficies: (soo-puhr-FISH-ee-eez) Noun
Outer surface or appearance of something or someone.

Anthropomorphize: (an-thruh-puh-MOR-fyz) Verb
To attribute human qualities to things not human.

Excursive: (ik-SKUR-siv) Adjective
Tending to wander off; rambling

Jobbernowl: (JOB-uh-nowl) Noun
A blockhead.

Kerfuffle: (kuhr-FUHF-uhl) Noun
A commotion.

"Getting Specialty Pricing with 'Commodity' Products"

Background:

We were recently asked to give a presentation on this topic and had produced most of the slides when we had to cancel our participation due to unforeseen client requirements. It is a good topic to cover in this newsletter and we have many years experience with this as a client project objective.

Examples:

We have several clients who were facing this same dilemma and who we helped in different ways via the Voice-of-Market™ Process. Each started out with a discovery based learning approach and then identified and implemented unique solution sets that optimized their ability to capture maximum value. (Specialty value with a commodity product) Examples of the different approaches are:

- An aerospace supplier with a product that goes into commercial aircraft with a very stable market share, only 2 competitors, and very little product differentiation. At a Voice-of-Market™ Forum, airline executives recommended **changing their business model** to charging 'by the flight hour' which makes all

replacements items an operational expense and not a capital purchase. They were able to use actuarial tables to project cost per flight hour and have increased their market share from 32% to 49% in 18 months with an increase in margins of 60%!

- A manufacturer of a glass coating that is factory applied in the flat glass operation came up with an **innovation** that delivers the same functionality but with less than half of the coating being applied. Prior to this, they were in a situation where they used similar chemistries to their competitors and their customers (also in commodity businesses) bought strictly on price. On top of the ability to use less coating, they did not lose value. They engaged their customers contractually to supply all coating needed by them with no loss of properties and at a 20% cost reduction (yearly cost) with 100% of the business. They sold 50% less material in cannibalizing their existing business but secured more than that volume in new market share, and at a very high margin.
- A client used **spec selling** in products for building and construction. They basically developed a new product that was more expensive than the commodity alternatives that they and others were selling but did have additional structural strength. They focused on lobbying state and federal regulatory agencies to have guidelines established that only their product could achieve! They have been able to replace much of their commodity product with an improved version and with very little competitive pressure.
- A client followed a Voice-of-Market™ Forum recommendation to follow a **third party legal influence** approach. Basically they had a commodity product and were able to re-formulate to get approval for use in healthcare and food processing facilities. They sent certified letters to all the top attorneys at hospitals, food processors, healthcare insurers, etc. Their letters were formal notice that a proven product was available that would eliminate bacterial and viral infections that exposed their organizations to huge potential liabilities. These influencers had the leverage to require usage and they did so in a large volume way. (They just could not ‘knowingly’ avoid using a product that could protect their patients/customers.) Our client was getting high specialty margins for nothing more than a reformulated product and with an investment of less than \$15,000 to make all the notifications.
- A client had a commodity product and was facing considerable margin pressure and very slow growth. They solved their problem with our recommendation to acquire a company with several specialty products that complemented theirs and were able to **bundle** their commodity product in a way that overall margins increased. Plus, even while they increased their revenues and margins, they were able to develop improvements with the bundling that saved their customer’s operational and handling expenses.

Lessons Learned:

- First and foremost; it is not inevitable that specialty products will go commodity over time. In fact, there are dozens of approaches to protect a ‘specialty position’ if an organization will make it a priority and invest in doing so.
- Secondly, an organization needs to be proactive and invest in identifying and implementing new approaches. There are several processes such as Voice-of-Market™ that bring objective and relevant alternatives that had not been considered.
- It will take top management commitment as the process may not deliver immediate results and it may be a radical departure from existing business models or organizational structures. Bottom up approaches have very little chance for success.
- Look for analogous successes to benchmark in industries different than yours; and look at them with a perspective of they can work rather than making the excuse that “it is not the same”. At the very least, a hybrid version of a new strategy will work for you.
- Look at your competition in new ways. In several of the examples above, our main competitors were not the traditional ones because of the new nature of our offerings.

Summary:

The above discussion and recommendations only scratch the surface on this issue but we would not be able to comprehensively explore this area if we increased this exponentially. At least we hope to have provided food for thought and an awareness of a very, overlooked issue in product management.

As always:

We address many topics and most are at the request of readers, clients, and other business colleagues as this one was.

We hope that this perspective has stimulated thoughts and helps improve your future returns. It has been our intent to pass along things we have learned or experienced on topics involving growth and new business development. Particularly ones that may be provocative or be beyond those considered every day. We do not try to presume to be the leaders in all areas we cover and we invite others to contribute with comments,

additions, or criticisms. We encourage feedback in any media and will post your contribution in a future newsletter if you allow it.

We also will continue to focus on topics that the readers choose in almost all cases over ones we consider within our staff so please continue to send requests for topics that you want to have covered.

PS:

We want to remind our readers that this section of the newsletter is open up to anyone with a development topic or an approach they would like to share. Four of the twelve topics of 2007 were submitted by others and we know many consultants, company managers, and academics who have very solid and profound contributions they could make in future newsletters. We ask that it be from 600 to a 1000 words although that is not a 'hard' range. Let us know and we will gladly distribute your topic to the thousands of people on our distribution list. Also, we will agree that the copyright and ownership is kept by the contributor and that we only have a right to reproduce it in conjunction with this newsletter.

Trivia

1. What was St. Patrick's real name?

Maewyn Succat.

2. Who were the first people to ever use toilet paper?

The Chinese.

3. What is the reason why women's dress shirt buttons are on the left and men's are on the right?

The reason why women's dress shirt buttons are on the left and men's are on the right is because when buttons were first used during the Victorian period; maids used to dress ladies and put on their shirts for them. Thus, it made it easier for the maids to button their ladies in the same way they did themselves.

We hope you learned something from this and/or stimulated an action that leads to new opportunities for you and your organizations.

Previous issues of our newsletters can be found at <http://www.paragondevelopment.com/perspective.html>.

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Mission:

To ensure that our clients make decisions that optimizes their growth and measurable value creation. We will do this with unequaled effort and efficiency.

Background:

PARAGON employees and affiliated industry partners are dedicated to helping clients optimize their planning and development efforts. We bring a network of external industry experts who provide objective information and insight into critical areas affecting our client's success potential. In addition to our own experience base and the external access to knowledge, we utilize a decision making process that combines best practices such as Voice-of-Market™; Stage-Gate; and Discovery Based Learning. Very simply stated, we combine efficient processes with the information necessary to ensure that commitments are made with solid, objective knowledge. We allow planning and development from the 'outside in' that compliments internal efforts.

We are not industry specialists. The experts from our PARAGON Network™ provide the specific knowledge in their fields while PARAGON brings process and functional experience that generates and interprets the relevant information.

Focus:

Our client assignments are broken into three main areas:

1. Retainer agreements in which we offer discounted plan with minimum thresholds for numbers of Forums or phases. They are exemplified by clients who may write us into their R&D or new product development processes in which a PARAGON Forum is required as a part of a gate approval.
2. Evaluation and monetization of assets such as technologies, operational capacities, or new product extensions. PARAGON's support is particularly valuable when the potential is unknown but falls outside core markets or industries.
3. Support in strategic planning and strategic expansion into non-core business areas. The deliverables are typically in the form of a strategic commitment into new platforms.

Mechanics:

The steps employed are a combination of internal (client) and external events. The internal events include:

- Setting criteria for the project.
- Examining the internal knowledge base.
- Setting scope and charter issues.
- Determine specific outputs required for overall success.

External events are:

- PARAGON Forums that have 6-8 external experts who bring distinct but complementary knowledge about markets, industries, trends, competition, channels, downstream value, and function excellence that is specific to the assignment. These are typically day long events that have been referred to as "Super Focus Groups" with the client involved in the planning and then viewing the group and providing guidance and direction throughout the day. All this without the outside experts knowing whom the client is and they are thus unbiased, creative, and provide different perspectives than our client has because of their 'inside-out' viewpoints.
- Surveys and interviews with people from our PARAGON Network™ that generate very targeted information that our clients require.

We hope that you have enjoyed the issues of *The Paragon Perspective* that you have received and will let others who might find this newsletter useful know about our publication. To provide us with profile changes; or to let us know about other individual interested in receiving our newsletter; or for other information just click on this link <http://www.paragondevelopment.com/contact.html> (or copy and paste this shortcut) and complete the Contact/Request for Information form (be certain to include your email address) or you may simply reply to this email and provide us with (or ask us) the information.

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