



The PARAGON Perspective

PARAGON DEVELOPMENT

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From the President

For those of you not familiar with us and may have received this as a ‘forward’ from the original recipient, The PARAGON Perspective is sponsored by PARAGON Development.

First and foremost we hope you have started strong in 2015 and this will be your best year ever.

Besides our wishes for success, 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.

This month’s editorial is “**Developing new business in non-core areas**”. This is a topic we covered several years back and it is timely to repeat it based on recent activity in our clients who are making new commitments relevant to this topic.

Jack T. Peregrim
Pres., PARAGON Development
Peregrim@ParagonDevelopment.com

Paragon Update

We have many projects starting in the second quarter and this looks to be sustained for the foreseeable future. A good sign is the number of European clients who are engaging us again and looking to grow over operational management. We are reluctant to project an overall economic recovery but we do see the signs and believe we may be close. Of course, that is from our limited and humble perspective.

PARAGON’s new mailing address is: PO Box 185490, Hamden, CT. 06518-0490. Please update your records.

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Conferences

No conferences have been sent to us to post for May by our deadline. We will gladly post any relevant meetings or conferences that may be of interest to our readers. Simply send us the information and we will post it here.

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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 over six thousand individuals who are in executive positions who either oversee or practice 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.

Clients have expressed interest in investing, licensing, acquiring, or partnering in the following:

- New adjuvant chemistries and technologies that enable active agricultural products to be more effective.
- New industrial enzymes directed to specialty/high value applications.
- Technologies that enable value added derivatives of phenol. Our client has a number of specialty materials and chemistries and is looking to in-license or acquire new technology.
- New lubricant additive technologies which will enable better and higher performing lubricants when used in formulations.

If interested, please direct inquiries to: Jack Peregrim, Peregrim@ParagonDevelopment.Com, (203) 288-4154

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Quotes of the Month

"Learn from yesterday, live for today, hope for tomorrow." *Albert Einstein*

"There are years that ask questions and years that answer." *Zora Neale Hurston*

"Just remember, once you're over the hill you begin to pick up speed." *Arthur Schopenhauer*

"Happiness is not the absence of problems, but the ability to deal with them." *Charles Louis de Montesquieu I*

"When two opposite points of view are expressed with equal intensity, the truth does not necessarily lie exactly halfway between them. It is possible for one side to be simply wrong." *Richard Dawkins*

"I have lived in this world just long enough to look carefully the second time into things that I am most certain of the first time." *Josh Billings*

"What can be asserted without proof, can be dismissed without proof." *Christopher Hitchens*

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Interesting Words

Festinate: (FES-tuh-nayt) Verb or Adjective

Verb: To hurry or hasten.

Adjective: Hurried or hasty

Saturnine: (SAT-uh-r-nyn) Adjective

1. Sluggish
2. Gloomy
3. Cold

Quiescent: (kwee-ES-uhnt) Adjective

Still; inactive; not showing symptoms.

Frangible: (Fran-juh-buhl) Adjective

Readily broken; breakable.

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“Developing New Business in Non-Core Areas ”

Background:

Most organizations look at expansion into non-core areas every few years. We are focusing this discussion on strategic expansion and not tactical development. We define tactical development as those product, market, channel, or business actions that are *supportive* of a strategic development. An example would be a new application of a core technology which goes into applications and markets that are not presently targeted for investment. The strategy is to expand the fundamental technology strength (where value creation will come) from but the implementation involves new markets.

Strategic expansion is investment in a technology, business, market, or channel in which to create a new competency platform. Organizations typically do this when growth in the existing core areas does not create enough value to meet stakeholder and management objectives.

We have been involved in dozen of projects with an objective to explore and commit to new platforms and there are success factors that we will share, thanks to the successes, and, also the failures.

Lessons learned:

Each situation is unique and frustrating without defined and detailed processes that are analytical and can be clearly applied. There are too many variables in starting points, investment strategies, competitive environments, and other factors that would enable us to provide anything other than a generalization; yet, the following success factors are based on extensive study, and many years of experience. These generalized success factors can be transferred into actions based on the specific situations and objectives.

Our study was, to a large, extent based on asking hundreds of executives a simple question: “Why has growth into new areas failed, or failed to occur, in your organization?” We felt that the ‘negative’ aspect of the question would be more insightful as it would focus on actual circumstances and it clearly addressed the tangible aspects of success factors without getting ‘opinions or wish lists’. Translating these negatives to positive success factors was fairly straightforward.

Compiling the data was fairly easy and showed five top factors on the vast majority of lists. We will present and describe the five below along with recommendations on approaches and mechanics that worked. There may or may not be any surprises to our readers but we can all benefit from thinking about them.

The five are:

- **Strategic Fit**
- **Clear Focus and Direction**
- **Competitive Advantage**
- **Solid Process**
- **Knowledge**

Strategic fit was high on most lists. The most surprising finding is the huge discrepancy on definition and criteria utilized to determine strategic fit. Without getting into great detail, we will present our definition of strategic fit. Strategic fit is actual or potential business to an organization that leverages core competencies with the potential to create and sustain value capture. Those words can be interpreted as ‘consultant speak’ so a simpler description is that the business has (or can acquire) core competencies that are superior to competitors and differentiated via a premium by the customers.

An example is that one of our clients felt there was a strong strategic fit for new products that could go through their distributors who they used for market access. Their distributors, however, were losing share to people who used direct sales. Their channel was a tactic but not a leverageable core competency that warranted platform investment. We have also experienced varying interpretations of strategic fit by the various functional departments in a company. An example is one in which a client had products based on materials technology that were additives into plastics sold into the packaging market. The marketing people thought their applications development capability along with dedicated sales, customer service, and technical support was their major core competency. The R&D people felt it was their innovations with a continuous stream of new functional materials that was the major core competency. It could be that they were both right but that could only be ascertained after a major core competency assessment by outsiders. The bottom line is that this needed to be done before major investment went behind either a new platform investment in technology for packaging or in duplicating their marketing capabilities in other markets that could use the present technologies. These are two very different investments.

Clear focus and direction refers to the initiative's mission, requirements, criteria, and output required. It is a process issue and was described by contributors as simply knowing what success is and understanding how to measure progress and results.

The greatest failures were the result of the "Dilbert conundrum" which is management giving vague instructions but requiring specific outputs. There are many ways to look at it but it is best summed up with the "Alice in Wonderland analogy" that "If you don't know where you are going, any road will take you there."

This is a much more common problem today than people realize even with our more sophisticated business development processes. Management used to be more open and tell those involved "You find us the opportunities and we will tell you if we like them." That is not as open today but it still exists. And, this is particularly applicable to new platforms.

The best approaches we have employed to ensure there is a clear focus have two main components. The first is to have a sponsor from senior management very closely involved to ensure buy-in at each step. If that person or persons are not available then everything waits for them.

The second component is having a multi-stage and multi-option process. It is multi-stage in that a first and possibly second stage will only get to qualified, not quantified, platform options. Subsequent stages will get to quantified options. But, it is important to start rank rating so the right time and effort can be spent on the best things. The multi-option process means that the process is not designed to come up with a single answer but prioritized options. As an example, we recently finished a program in which 2 targets were designated for aggressive pursuit, which we classified as representing 80% of the involved client's time. There were another 4 targets that represented another 15% of time and investment and we describe those as being attractive with a strategy to be opportunistic but not fully committed. We would look for 'low hanging fruit'. The last 5% of our effort should be on about 5 more targets that are less well known but had the potential to be 'home runs' and we should watch them for signals and changes that could change their designation.

Competitive advantage is a difficult and sometimes subjective thing to judge but the people who we surveyed all said it was a major reason for failures and a huge part of the successes. Intellectual property is certainly a major component and not worth mentioning any further as it is clearly the main way to gain competitive advantage so we will focus on the other aspects of competitive advantage which deal with strategies and business models. We offer a current example that we are not advocating but which exemplifies this. Blockbuster has offered 'no late fees' as a way to differentiate itself. The reason is that it is a way to do something that they are best capable of handling. They have the highest capital structure in what is a mainly fragmented industry so anyone who matches this has a more negative impact than they do. If they offered other deals such as 'fifth rental free' or a 'one week advanced rental for best customers' or something else on those lines, others would do the same and without hurting themselves much. Instead, they used their tremendous buying power and deep pockets to offer something that they are uniquely qualified to deliver. After all, the products (movies) are all the same.

We have been involved in many other examples and sometimes an organization has a differentiated competency that is unique and valuable in a different field. For example, offering a 'warranty' may be standard in one market but hasn't been done in another as policy, particularly if supplying a component of the final product. But, offering the same warranty in a market with the current suppliers not doing so could offer a competitive advantage. The company offering the warranty has a competency to understand the real costs and the actuarial competency to manage it best. We have also been involved with materials based businesses and a recent example uncovered that a core competency to control particle size was a basic requirement in their present market but the differentiation came from modifying the particle's surface. Yet, in another platform opportunity, the existing suppliers did not have the process capability to control particle size and that was becoming much more important to the customers in that market. Our client is now exploring licensing and partnering options to get 'best in kind' application capability in this application and their competitive advantage will come from a competency that they did not list as core to their existing business.

Solid process is a 'catch all' term and manages the development of the other four factors but the people surveyed strongly felt that it was a major factor in success. The toughest thing to deal with is that we have many business processes to handle new product development or to do strategic planning or to do market research, or to look at acquisitions. But, none of those exactly fits looking at potential new platforms. Thus, a big mistake is in trying to 'force fit' developing non-core business into a process that is not made for it. The usual result is in screening everything out or in making changes that create a subjective over an objective process. The risk/reward profile in new, non-core areas will never be the same as extension business and it cannot be held to the same levels of scrutiny.

This is a difficult area to prescribe even general approaches beyond the following.

- Know that the existing processes do not fit this area and create a new process that is customized to the specific situation, investment support, expectations, and outputs required.
- This will end up more a 'people' process and not as much an analytical one.
- The process will cost at least an order of magnitude more than current processes looking at extension business.
- The *attitude* will be different and not "why should we be convinced that this is what we should do." Instead, the attitude is more like "If not *this*, then what?" That is a huge difference but it is required to have any chance of success.
- Because the potential platform involves very different areas, do not do this mainly with internal resources. This requires many consultants and outside service providers to be involved because the danger that always occurs is that internal people will believe they know more than they do.

Knowledge (not information) is a critical component and that is simply explained by the fact that information (historical and documented) just doesn't exist for a new platform entry with the requisite new competitive advantage expanding into a new field and having a negative effect on the existing suppliers. As that occurs, there is a much more likely potential that the process will not be rational. There will be variables and responses that cannot be predicted. An example is the different potential competitive responses. One case could have the suppliers decide to exit rather than compete on new terms and they may have other businesses that they can use for growth. On the other end of the scale is a response where the main competitors are dedicated strictly to this business and will aggressively respond with price cuts, bundling, or other approaches to reduce any potential short term value capture. Even with a competitive advantage.

The best solution we can recommend is to gather as much information as possible and emphasize two processes to project potential. Those are scenario planning and benchmarking.

Benchmarking should be done both in the targeted area if possible as well as in analogous businesses.

Scenario planning involves outside industry or market consultants who will give 'opinions' on reactions and expectations to possible strategies and actions and this should be used in conjunction with processes such as Voice-of-Market™ to provide a 'blind' and objective perspective.

PS:

We want to remind our readers that this section of the newsletter is open to anyone with a development topic or an approach they would like to share or even just comments or criticisms of a past topic. Many of you - consultants, company managers, and academics - have very solid and profound contributions that could be presented in future newsletters as a guest contributor. We ask that your submission be from 300 to 800 words. Let us know and we will gladly distribute your topic to the thousands of people on our distribution list. We agree that the copyright and ownership be kept by the contributor and that our only right is to reproduce it in conjunction with this newsletter.

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Anecdotes

Henry Ford

Henry Ford once called in an efficiency expert to examine the running of his company. The experts made favorable reports but he expressed reservations about one employee. "It's that man down the corridor," he said, "Every time I go by his office he's just sitting there with his feet on his desk. He's wasting your money."

"That man," replied Ford, "once had an idea that saved us millions of dollars. At the time, I believe, his feet were planted right where they are now."

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We hope you learned something from this and/or stimulated an action that leads to new opportunities for you and your organizations and that you will let others who might find this newsletter useful know about our publication. Previous issues of our newsletters can be found at <http://www.paragondevelopment.com/perspective.html>. If you would rather not receive the newsletter please respond to this email and include the word REMOVE in the subject line or in the message. To subscribe



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