



The PARAGON Perspective From the President

PARAGON Perspective is sponsored by PARAGON Development. We are not intending, and will not use this communication to promote our business. There are other times and places and opportunities for that.

We hope to inspire debate and pass along information that may enable all of us to better understand and succeed in our new business objectives in the future. Plus, we hope to make you smile and think. We further hope you pass these along to colleagues who may have mutual interests.

We want to use this forum 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.

We welcome your comments on any topic and encourage you to contribute to future newsletters. The PARAGON Perspective is now in its fifth year. We thank everyone for their newsletter contributions and for the ideas and suggestions that have brought recognized improvements and made it easier for us to produce.

This month's newsletter will highlight our opinion on the business development topic: **"Capturing downstream value without being there!"**

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Paragon Update

This is the twelfth and last installment in 2006 which is our 5th year.

We would like to get your feedback on this newsletter to allow us to make changes in substance; focus; appearance; or anything else for next year. Each year we have made changes, eliminating sections and adding others on the advice of our readers and we want to do the same for 2007 as well.

Paragon is starting a record number of new projects over the next 2 months and we believe this is indicative of the business environment being focused more and more on new value creation. We also *hope* our past successes are a contributing factor as reflected by the majority of work being with clients who have engaged us before.

Conferences

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

No conferences have been sent to us for the rest of this year and thus there are none to highlight in this edition of The PARAGON Perspective. If anyone wishes to include a notice of an appropriate conference we will be happy to add it next month.

In addition, this space is reserved for announcements of other conferences or events that may have value to our readers and we will gladly add others as requested. We had resisted 'monthly' meetings but, due to the many requests, we have been adding those in 2006.

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

1. **Client** technologies are available as follows:

- A disinfectant chemistry with application in healthcare and other sanitizing applications. Just entering commercial development with extensive testing and data already generated.
- A new technology that enables production of Omega-3 PUFA (Poly unsaturated fatty acids) via a fermentation route. Therefore it isn't based on fish oil and has very superior benefits because of that. The first focuses are in food additives and nutritional supplements. This vegetable based Omega-3 meets kosher and halal requirements in addition to having a large improvement in organoleptic properties.
- An enzymatic and biologic portfolio of products that can be use as biocides that are not based on toxic chemicals.

2. **A client** is looking for new opportunities in novel and proprietary enzymes.

Anyone interested in either of these technology opportunities should contact us as below and we will forward the responses to our clients so they can contact you directly.

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Quotes of the Month

"Luck is the residue of design." *Branch Rickey*

"The secret of success is to know something no one else knows." *Aristotle Onassis*

"The opposite of a correct statement is a false statement. The opposite of a profound truth may well be another profound truth." *Niels Bohr*

"In any contest between power and patience; bet on patience." *W. B. Prescott*

"A leading authority is anyone who has guessed right more than once." *Frank A. Clark*

"Fools live to regret their words; wise men to regret their silence." *Will Henry*

"Advice should always be consumed between two thick slices of doubt." *Walt Schmidt*

"Success is a ladder that cannot be climbed with your hands in your pocket." *Proverb*

"It is better to be a lion for a day than a sheep all your life." *Sister Kenny*

"The trouble with not having a goal is that you can spend your life running up and down the field and never scoring." *Bill Copeland*

Web Site Additions

Our website has been updated but we will continue to add to our alliances and partnerships page. It provides sourcing to our clients on services they may be seeking in specialized functional or industry areas. As such, we will post organizations and individuals who we know to excel in products and services.

If you would like to be included in this listing, free of charge, please submit a request to us with a short (50 word) description of your products and services, as well as direct contact information. We view this as a mutual service to our clients as well as companies, consultants, and other entities we have had the pleasure to work with.

We encourage readers to review the organizations and individuals on the website as they are limited to those people we have personally qualified. This is also a service we offer without any compensation as our intention is to serve as a catalyst for success in a broad way that extends beyond those areas where we are best in kind.

We have several additions pending and will be updating them for early 2007

Interesting Words

Dehisce: (di-HIS) Verb

1. To burst open; as the pod of a plant.
2. To gape.

Phatic: (FAT-ik) Adjective

Relating to communication meant to generate an atmosphere of social relationship rather than to convey some information

Invidious: (in-VID-ee-uhs) Adjective

1. Unjust, offensive, or hateful and likely to arouse resentment.
2. Ill will and anger

Virtu: (vuhr-TOO) Noun

1. A love of, or taste for fine objects of art.
2. Objects of art, curious, etc.

Pencil or pensil: (PEN-suhl) Noun

A small flag at the end of a lance

“Capturing downstream value without being there”

Scenarios

A consumer has an option to purchase a lap top for an additional \$125 that has a battery that will last 1 hour longer than the standard battery. They gladly pay for the option because they use it in travel and on planes and can work much longer or even watch videos. The reason it lasts so much longer is that a chemical company invented a new material for the membrane in the battery that enabled its improvement. The chemical company is rewarded with an additional \$3. That is what they get when they sell it to the battery manufacturer who sells it to the computer component company who sells it to the computer company itself who then sells it to a retailer who then sells it to the consumer. There is \$125 new value created and no one along the way did anything to create that value except the chemical company who innovated a new membrane and was rewarded with \$3. An argument could be made that the computer company and retailer did market it and should get *something* but almost 98% of the value!?

Reasons

First, there is no way for the chemical company to capture anything close to all the value created. They do not have the leverage or the ability to have the entire value captured and then passed through the value chain. And, there are many reasons for this:

- Their invention occurred in large part because the downstream players communicated back to them what they wanted and what would improve value. And, that only happens with a considerable investment in market research and marketing.
- The chemical company is competing against very strong, entrenched competitors who are also innovating based on their knowledge of what their customers and downstream customers want to see. In fact, many times improvements (new innovations) get nothing for the innovator except a maintaining of existing business. “To stay still is to fall back”.
- The chemical company does not have access to data that allows value engineering and thus allows it to understand the actual value added. This data is held very closely by the downstream players and they would never share it with suppliers. Thus, the chemical company finds itself allowing their customer to **tell them** what they will be paid.

- The chemical company likely would have signed a development agreement with customers which takes away much leverage and other options for the actual business development. Analogous to sports where free agents can negotiate any salary they want but only if it is with one specific team. These free agents do not have the leverage like they would if they could go anywhere.

Solutions

If things sound pessimistic for the chemical company, it isn't all negative and there are things they can do. And, without their making and selling computers! Or even going into manufacturing the sub assemblies or even the batteries themselves.

We have several clients who have been successful in improving their downstream value capture and many more are implementing processes to emulate them. Some of the things that clients are doing with success are:

- Investing in processes that provide the data and intelligence they need to understand just what the downstream value is. An example is a chemical company we work for who has kept R&D investments steady but doubled their marketing and market research spending over the past 3 years. Their overall budget is still a small fraction of their R&D budget but the results have been astounding and the value created is equal to several times more than the contribution from R&D. We are in an information/marketing age and 'back-stream' or OEM producers are just starting to catch up with their customers in knowledge management. Yet, even with the large returns from this efforts, our client is fighting significant 'turf wars' because of the "ridiculous" spending on marketing to create value.
- Companies are focusing on intellectual property protection and particularly patent mapping at an earlier stage. In the past, most raw materials or component producers filed basic patents but did not invest the large money needed in applications patents to protect downstream value and to get maximum leverage. We see that changing very rapidly with several clients doing extensive patent mapping early and then filing the applications patents prior to discussions with potential customers. In many cases they can also negotiate to receive licensing revenue from downstream players so they get a higher price from their customers based on the leverage they have and then get money from their customer's customers as well. It is expensive but has a very high ROI in the long run.
- Investing in intellectual assets which go well beyond patents and include trademarks, copyrights, and brands. Everyone is trying for "Intel inside" but very few are able to succeed. The reasons are that their expectations to be Intel will **never** be achieved and they also want to receive a high value without investing enough to do it. It is the business model dilemma where a manufacturing company thinks it is wasting money on marketing and 'intangible' value creation approaches.
- The last thing we would like to pass along is that we have seen clients succeeding in this by hiring the right people (who are not inexpensive) but who truly understand their value chain intimately. They are from the downstream value chain and learn the raw material business instead of being from the raw material end and trying to understand the complexities of downstream relationships and processes.

This topic is so rich that a book could be written about it instead of our just touching on things in a few paragraphs. In fact, we will be addressing it again in different ways and expanding certain aspects of it in future editions of this newsletter.

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.

Trivia

Why is yawning contagious?

No one knows the answer to this question for sure, but a study recently published in the journal "Cognitive Brain Research" theorizes that yawning in response to someone else's yawn maybe an empathic response similar to

laughter. Yawns can be triggered not only by seeing a person yawn but also by hearing, reading about, or even just thinking about yawns. (Now, didn't you yawn or stifle one as you read that?). Researchers believe that contagious yawning may be a primitive way of modeling our feelings after other people's feelings.

Human lung

The surface area of the human lung is equal to that of a tennis court.

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 unequalled 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.
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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 past 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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