

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 and this is our 43rd edition of The PARAGON Perspective. 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: "Planning by Percentage"

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

Paragon Update

This is the second installment of our newsletter in what is now our 5th year.

There always seems to be an imbalance of project types and right now is no exception. The new projects we are starting are all about finding new platforms and about making new strategic investments. Two months from now all new projects may be commercial development or extending products and technologies. People ask us if we can project our projects into any meaningful statement about the state of the economy or about business or industry investment and the answer is a clear no.

Both major new projects this month are in the chemical industry but March is already lining up with new projects in medical and healthcare.

Conferences

This space is reserved for announcements of conferences or events that may have value to our readers and we will gladly add others as requested. We have resisted monthly meetings announcements, but due to the many requests, we may add some in 2006.

PARAGON personnel have accepted a number of speaking engagements in 2006. Our next presentation will be in February at the LES Winter Meeting.

LES (Licensing Executive Society)
Winter Meeting—Pasadena CA
February 22-24, 2006

LES is the most effective and extensive organization with a specific focus on licensing and intellectual property but it also has a very broad value in all areas of technology transfer. It is global and represents all major industries in which technology is a dynamic component of success.

PARAGON will be speaking about how the Voice-of-Market™ Process, and others, can play a role in determining valuations of intellectual assets in addition to developing optimal development plans.

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 Being Sought

- A client with a bio-engineering program that is world class and has had huge breakthroughs in modeling soft tissue organs as well as the muscular skeletal (including skin) system. There are very large potential benefits in areas such as drug testing; cardio vascular; disease diagnostics and treatments; and surgical planning (organ modeling). In addition there are further opportunities for graphic animation in games and films; forensics; surgical planning; cosmetics; and sports medicine (Muscular skeletal including skin).
The capabilities are too numerous to mention but we would be glad to pass along any request for information or collaboration to the right party. They are presently in the initial stages of market/applications development so now is the best time to explore partnerships with them.
- A client is looking for technologies that will have value in improving the value of styrenics based polymers and their applications. This could be additives that improve functional properties of styrene or polystyrene or it could be process aids that allow more efficient product or a reduction in costs. Our client is a very large global producer and is looking for new growth in specialty applications and with unique products and values.

If you have, or know of, any potential technologies or products for these clients, please contact:
Jack Peregrim @ (203) 288-4154 or peregrim@paragondevelopment.com

Quotes of the Month

- "Don't be afraid to take a big step if one is indicated. You can't cross a chasm in two small jumps." *David Lloyd George*
- "Great minds discuss ideas. Average minds discuss events. Small minds discuss people." *Admiral Rickover*
- "The difference between genius and stupidity is that genius has its limits." *Many authors*
- "Even a stopped clock is right twice a day. After some years it can boast of a long series of successes." *Marie Von Ebner-Ecchenbach*
- "Stop blaming your fears of tomorrow on your experiences of yesterday. Build a bridge and get over it." *D. Bruce*
- "The important thing in life is not to have a good hand, but to play it well." *Louis N. Forten*
- "Striving for success without hard work is like trying to harvest where you haven't planted." *David Bly*
- "Wherever you see a successful business, someone once made a courageous decision." *Peter Drucker*
- "How much easier it is to be critical than correct." *Benjamin Disraeli*
- "Preconceived notions are the locks on the door to wisdom." *Merry Browne*
- "Never be haughty to the humble. Never be humble to the haughty" *Jefferson Davis*
-

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.

Interesting Words

Cognoscente: (Kan-ye-shen-te) Noun

1. A person who is especially knowledgeable in a subject.
2. Connoisseur.

Thimblorig: (thim-bel-rig) Verb

1. To cheat by trickery.
2. To swindle.

Peripatetic: (per-e-pe-te-tik) Adjective

1. Aristotelian.
2. Of, relating to, or given to walking.
3. Moving or traveling from place to place. Itinerant.

Perspicacious: (per-spe-ka-shes) Adjective

1. Of acute mental vision or discernment.
 2. Keen.
-

“Planning by Percentage”

Background:

This topic is driven by several relevant client project starts and situations based on delayed approvals to move forward. It is a phenomenon that is particularly prevalent in new **platform** type projects. The following exemplifies the issue.

Our client is a large specialty chemical company and one of their businesses focuses on plastics additives as their main products. The majority of their work is focused on engineering their existing additives to continue to be more efficient in the applications they presently serve.

Last year their lab invented a totally new additive that works in several matrixes outside their primary existing focus. This has large value potential in new market segments and with new customers. R&D wanted to move quickly to exploit this invention and it rapidly cleared the second gate in their process. That was almost 12 months ago and nothing has really been done since then on this large potential new platform.

The reason is that the funding required would exceed \$300,000 and there was no money in the budget last year. (The budget needed to be submitted in November 2004). And, in true Kafka fashion, they didn't budget the money to develop the data to allow them to budget the money for the project. Thus, a large new platform is 'on hold' while they focus on many small projects that offer little potential for impact by comparison.

Percentage Considerations:

We have other clients with different approaches to funding new initiatives. One in particular has a very simple approach. They will fund up to one half of one percent at any time for discovery research (R&D & Market) on any project without taking it from the individual SBUs. The percentage is based on qualified revenue potential at maturity (no longer than four years out) and with the expectation of achieving higher than existing business margins. Thus, an opportunity with qualified potential for \$100mm per year would allow up to \$500,000 (1/2 of 1% of potential) to explore in R&D and market research.

They have credited this with the fact that their new products (those launched within the last 3 years) now account for 40% of their sales. This has encouraged new platform development over incremental improvements that tend to be driven and supported by sales and business managers who see more immediate contributions.

To ensure that the funds are applied properly, the following practices are invoked:

- A small division market research staff will verify the overall potential. This must be done within 4 weeks.
- Intellectual property staff must do the same within the same timeframe including broader competitive intelligence beyond patent mapping.
- One half of the initial funding will be charged back to the appropriate businesses but the charge-back will start in year two and be spread over 3 years. If no existing SBU ends up being the recipient of the new platform, then no business will be charged back. The project is not held up to determine who should be charged.

- A special executive team acts as gate-keepers and reviews the project to ensure that the funds are used only on the new platform.

The client also provides motivation in many ways to encourage new platforms. Special recognitions and rewards are given to those who initiate these projects as well as to those who succeed in their rapid development. This has created an atmosphere where people want to be assigned to these projects or to work on them in some way.

Another client has been doing much the same but has articulated it differently. They are more of a basic, mature business and may even be described as commodity producers, although they prefer not to be described that way. They had found that their direct sales force has been reduced over the years as has their marketing budget which makes it more difficult to leverage their existing resources into new markets with their existing products. They have been able to create low cost alternatives to their traditional products that could be attractive to second and third world areas but did not have the personnel or time to develop these new markets based on unwavering formulas.

This client did much the same thing by establishing a formula to fund marketing of existing products to new markets based on a percentage of the potential sales in year two. They will basically fund five percent of the potential revenue for two years of sales and market development which is about one half their profits. In a new market that can be considerable. As an example, they calculated that Eastern Europe had potential of \$20-25 million in sales in year two. They were able to rapidly get approval to allocate 1 million dollars for new sales and marketing and have 2 full time people now selling to that market. They are well ahead of their projections after only 6 months.

They attribute using a percentage based approach to enabling this because they would never have been able to do this without it. Each example, like those above breaks the standard that is based on maintenance and incremental growth in existing markets.

In summary:

A percentage based approach may be a catalyst for new platforms but there are several things that need to be in place to make it productive:

- Management needs to give pre-approval to the spending and without restrictions based on quarterly earnings or other short term business concerns. (We did, however, have a client who capped the number of platforms started in any one year).
- There have to be guidelines and procedures in place that ensure the process isn't abused.
- The organization needs entrepreneurial managers and support personnel to both create and drive new platforms.

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.

The following comments in response to our last essay "**Transaction Options**" come from Herb Healy of United Technologies:

"Appreciate your perspectives. One thing regarding transactions, you need one of the first two (*traditional transactions*) to make any of the others possible. And you can't have either of the first without a product. Whether hard, soft, or service. "

Trivia

Why do we never see cashews in their shells?

Cashew shells are classified as a poison and thus are not sold 'in shell'. We can get cashews in many foods but they are not shipped or sold without special permits.

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>.

Your friends at:

PARAGON Development
www.paragondevelopment.com

PARAGON Development

1485 Dunbar Hill Rd. Suite 4010
Hamden, CT. 06514
(203) 288-4154
www.ParagonDevelopment.com

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.

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.

If you no longer wish to receive *The Paragon Perspective* please respond to this email and include the word REMOVE in the subject line or in the message.