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.

We welcome your comments on any topic and encourage you to contribute to future newsletters. The PARAGON Perspective is now in its sixth 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.

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

This month's newsletter 'perspective' is based on a request of several people within one organization for re-printing an essay published several years ago. They are currently facing this challenge and have been given the mission to create new value with platform business that is not mere line extension. The topic is: **"Developing Business in Non-Core Areas".**

Jack Peregrim
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Paragon Update

What had projected to be a moderately busy summer has turned into a 3rd quarter that is expected to set records for projects engaged. This includes several projects in areas we had not previously worked within.

Paragon Network---Offer to Join

The PARAGON Network has over 40,000 experts and executives who we engage in behalf of our clients. Many of the recipients of this newsletter are not in this network and could be missing out on very dynamic opportunities to be involved with us in exciting and fulfilling projects. Some key aspects of joining our network are:

- We only need a resume, bio, or vitae to add you to our network.

- The network is proprietary to PARAGON and is never shared with anyone outside the organization. No access is given to outsiders and we keep the highest level of security in our database. We also do not share involvement of any individual without their permission.

- We never consider inviting someone from our Network to a Forum in which the client is a competitor.

If you are interested, please direct any questions or send your background information to:
Barbara Heimlich, Vice President-Research Heimlich@ParagonDevelopment.Com

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Conferences

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

LES (Licensing Executives Society)
Vancouver, BC
October 14-17, 2007

The L.E.S. is the best conference and organization for issues well beyond licensing and I.P., including value in technology transfer and methods to valuate, evaluate, and commercialize technology with much broader 'take-aways'. The conference is very reasonably priced, includes many amenities in the overall program, the presentations are very informative and is always well attended to present networking opportunities and valuable.

Information and registration can be found at: WWW.LES.Org

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. New technologies of interest for license or acquisition are:

   - Technologies that enable tele-medicine with a focus on software and devices.

   - Technologies that extend performance range of elastomers.

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

"The man who removes a mountain begins by carrying away small stones." *Chinese proverb*

"The only real voyage of discovery consists not in seeking new landscapes but in having new eyes." *Marcel Proust*

"You don't get harmony when everyone is singing the same note." *Doug Floyd*

"The wind and waves are always on the side of the best navigator". *Edward Gibbon*

"Good advice usually works best when preceded by a bad scare." *Al Batt*

"Education is learning what you didn't even know you didn't know." *Daniel J. Boorstin*

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

"Everybody is ignorant; only on different subjects" *Will Rogers*

"Habits are first cobwebs; then cables.." *Spanish proverb*

"He who truly knows has no occasion to shout." *Leonardo DA Vinci*

"Today's opportunities erase yesterday's failures." *Gene Brown*

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 do 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 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 <u>not</u> do this mainly with internal resources. This requires many consultants and outside service providers to be involved because the danger that <u>always</u> 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.

<u>**As always**</u>
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.

<u>**PS:**</u>
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 last year 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

What do the kings in a deck of playing cards represent?

The kings in a deck of playing cards are supposed to reference great kings from history.
SPADES: King David
HEARTS: Charlemagne
CLUBS: Alexander the Great
DIAMONDS: Julius Ceasar

On what vegetable did an ancient Egyptian place his right hand when taking an oath?

The onion.

What does the 'proof' mark allude to on bottles of alcohol?

'Spirit of proof strength was the technical standard by which strength was measured until January 1, 1980. Hundreds of years ago, spirit of this strength was proved when whiskey and gunpowder were mixed and ignited. If the gunpowder flashed, then there was enough whiskey in the mixture to permit ignition. Such whiskey was held to have been proved—i.e. 'tested'. If the spirit was weaker than this, then ignition did not take place and the whiskey failed the test.

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 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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