

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' will be one that we have touched on before but is worth repeating and is being duplicated by a request from a long time recipient. The issue is as relevant today as it when discussed several years ago. The topic is: "**Outsourcing Business Development**".

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

Paragon Update

PARAGON has just finished one of the busiest 5 months in our history and the summer looks like it will be a record for this time of year as well. A major factor driving our activity this summer is based on our ability to work on objectives during this time and finish just as summer is ending. Thus, clients who schedule vacations are not lengthening development time because we are working while they may 'slow down' a little.

We continue to see increases in projects either in healthcare or with the healthcare market being the target for companies in chemicals and coatings.

Conferences

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

The World Future Society
July 29-31, 2007
Minneapolis, MN

We are long term members of this organization and will be attending it again this year. We highly recommend this conference for anyone involved in long or short range planning, scenario planning, strategic planning, or corporate affairs.

Additional information can be found at: WWW.WFS.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

New technologies of interest for license or acquisition are:

- Any new and novel bio-cides or anti-microbials for specialty applications.
Targets are: Consumer; healthcare; personal care; and specialty industrial.
- Coatings technologies with an emphasis on applications in specialty wood and vinyl markets.

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

Jack Peregrim @ (203) 288-4154 or peregrim@paragondevelopment.com

Quotes of the Month

"Success will win you false friends and true enemies. Succeed anyway" *Mother Teresa*

"I say that luck is an opportunity that, when it comes along, you are prepared for it." *Denzel Washington*

"Do not fear going forward slowly; fear only to stand still". *Chinese proverb*

"Education is a progressive discovery of our own ignorance." *Will Durant*

"If you are not a risk taker, you should get the hell out of business." *Ray Kroc*

"There are so many people out there who will tell you you can't. What you've got to do is turn around and say: I can, watch me." *Layne Beachley*

"People wish to learn to swim and at the same time to keep one foot on the ground." *Marcel proust*

"Perseverance is the hard work you do after you get tired of doing the hard work you already did." *Newt Gingrich*

"Once the game is over, the king and the pawn go back into the same box." *Italian proverb*

"Things ain't what they used to be and probably never were." *Will Rogers*

Interesting Words

Sequacious: (si-KWAY-shuhst) Adjective
Unthinkingly following others

Pawky: (PAW-kee) Adjective
1. Sly, shrewd.
2. Dryly humorous.

Tatterdemalion: (tat-uhr-di-MAYL-yuhn) Adjective or noun
1. Ragged or tattered.
2. A person in ragged clothes

Educe: (i-DOOS) Verb
1. To draw out; to elicit something latent.
2. To deduce.

Obiter dictum: (OB-i-tuhr DIK-tuhm) Noun
1. A passing comment.
2. An observation by a judge that is incidental to the case in question, and not binding as a precedent.

Outsourcing Business Development

Background:

There have been innumerable times we have been in a client meeting and the subject comes up that they prefer to outsource business development. We are not going out on a limb to say with 99% certainty that it will raise the risk of failure considerably! And, continuing with another strong statement; it is a bad investment.

The vehicles do exist that, on paper, appear attractive to outsource business development. These include distributors and wholesalers; alliances and partnerships and other methods.

Why bother to spend the money in marketing and promoting a new product when someone else can do it for you? Why go to upper management to secure new sales and marketing resources prior to having a revenue source to offset expenses?

The answer to the above is: Because controlling and investing in business development is the most efficient, effective way to ensure success!

Example:

We were involved in a project several years ago with an organization that developed a very unique technology with applications in cosmetics and toiletries. This product was a new platform from their main development focus in their core market and would be directed at a completely different market with different customers. The market development could not be efficiently combined based on very diverse testing and applications development and selling protocols. The client felt the best way to pursue the new customers was to select a key distributor with a long track record serving the main targeted customers. Thus, they would have their new product development and commercialization managed by experts in this application.

Again, it sounded great on paper and the client would not need to expand its staff with new people experienced in the new area. It was estimated they would save over \$2 million per year in R&D, product development, marketing, sales, and technical service people.

They negotiated with several organizations to represent their offering and ended up with one that granted the distributor a 3 year exclusive arrangement *from the first commercial sale*. The distributor promised to put its resources into the initiative and both sides were satisfied with the arrangement.

That was 4 years ago and today there are virtually no sales when initial projections had been for over \$30 million per year with a gross margin over 50%. The client is in litigation as they dumped their arrangement with the distributor and were sued over it. They are now doing what they should have initially; which is to manage the business development with their own people.

The reason things did not work out was that the distributor did present the technology to their sales and marketing people. But their emphasis is on the existing business volumes that give them the most profit. Business development is a difficult and uncertain activity and they gave a cursory effort to see if there was 'low hanging fruit'. They realized there was a large upside but they just wouldn't spend the time or money to create the opportunity for someone else. Once they encountered the first hurdles, they did very little in giving the focused effort that new business development requires.

This example is indicative of the things we have seen with new products or technologies that go into new markets or applications, when new business development needs to exceed typical new product commercialization to existing customers.

Recommendations:

Our recommendation is not to 'break the bank' on all projects but those with the greatest potential should very, very rarely be outsourced for the business development. It may be a strategic decision to use alternative channels or sales outlets but that should be done after the product or technology has reached a value capture level that puts the organization in a position of strength.

Organizations tend to act like the value is almost exclusively created with the innovation in the R&D or applications development and it is typical for a business-to-business organization to find in a review that over 90% of the development expense is always from a technical perspective over a marketing one. (The above example was a chemical company and the 90% estimate was over 95% in their case). We believe that it is prudent business to invest almost equally in the business development and marketing as it is in the technical innovation. The reasons for this are:

- The technical development is a large sunk cost and, although it may be viewed as a huge expense that is the end. We should not waste the investment at the 'half way mark' by not going all the way with the business development.
- Opportunities today are very limited and those that have potential should never be dropped which is what we do sometimes. We face a critical juncture where we realize that capital can be used in a

continuous investment or in a new area and we typically go to the new area. Usually just as we see the first hurdles and commercialization problems. (A future newsletter will focus on “Dropping good projects” which was another reader request). We tend to believe that it will either sell on its *obvious merits* or we should just go on to one that will have immediate pull through without any extensive effort.

Steps/Actions:

The main action we recommend is obvious!

Require a huge, clear, quantified, compelling reason to outsource business development!

It is just too attractive to look for an easy way, yet it rarely is going to work. At least it won't optimize value creation.

Other things that can be done include:

- Using industry or market consultants for some of the direction and planning based on their experience. You can then have the plan execution be handled by your own dedicated people. And, it will enable an efficient hiring of new people or reassignment of existing ones because there will be clarity of critical success factors.
- Get top management support to the entire concept of business development and the inefficiency of trying to outsource this. One of the biggest misconceptions by upper management is that this is the best way because they have read about a few successful ones that worked. And, those examples usually are rare exceptions but management sees this as a way to capture value without investment which is very attractive.
- Budget for new business development at an equal level with technical development. We have been involved in a project that exemplifies many others. A new innovation would be projected to have \$20 million in sales with one business development person but would grow to \$50 million in 3 years with 5. The initial technical investment was over \$8 million and 5 dedicated people would cost about \$1 million per year. If anyone would want to run a 'Monte Carlo' or other financial projection they would be amazed at how lucrative the investment is in business development.

In summary:

We address many topics and most are at the request of readers, clients, and other business colleagues and many times there are many factors that make it difficult to apply recommendations in a large percentage of cases without getting into detail. We believe that this topic is not one of them and it clearly makes sense to keep business development internally in the vast majority of cases.

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 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 causes ice cream 'brain freeze'?

We have all heard the childhood expression: "I scream, you scream, we all cream for ice cream". And, about one third of us would like to scream when we indulge in ice cream thanks to "brain freeze".

It is a painful swelling of the blood vessels around the head that is triggered when an icy-cold substance hits the back part of the roof of your mouth and chills it. The piercing headache starts a few seconds after contact and usually last less than a minute. The good news is that it does not produce any damage whatsoever. As bad as the pain is for a short period of time, there is no danger that someone will have an aneurysm or stroke.

The key to this occurring is temperature and consistency. A cold soda will rarely cause this as it doesn't have the consistency. The food must be icy-cold and it needs to maintain contact with the roof of the mouth. Therefore it must be 'thick' enough to do more than simply slide down the throat. A milkshake, Slurpee , or even a margarita would do it.

The best way to avoid the ache. Just eat or sip slowly to allow gradual release of the low temperatures and minimize the ability of the food to maintain contact with the back of the roof of the mouth.

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 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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