The PARAGON Perspective

Features

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.

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

This month's perspective is on the timing of projects and is a repeat subject and column based on several requests over the last month. The title is: **"Developing Business in Non-Core Areas".**

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Paragon Update

The first Quarter 2010 started slowly which was indicative of the economy and the tentative approach many of our clients employed in budgeting projects. Things have improved considerably since and we have quickly filled capacity to a level; not seen since second Quarter of last year.

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Conferences

LES Spring Conference---Boston MA
May 18-21

The Licensing Executives Society is the leading organization in education, process, and networking in licensing and technology transfer. Their meetings are always well attended by business executives as well as licensing and intellectual property professionals. We plan to attend this meeting ourselves and will assist in the roundtable discussions. We look forward to seeing you there. For more information go to the LES website: http://www.lesusacanada.org/default.aspx.

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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 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.

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Technologies of Interest

Enzyme design and production: A client has a very sophisticated and world class capability to design and engineer bio-catalytic solutions based on enzymes and some proteins. They have focused in food, bio-fuels, pharmaceuticals, and industrial applications.

Packaging Adhesives and Coatings: A client is interested in any technologies or developed products with applications into packaging adhesives and coatings. They have a substantial existing business and are looking to expand their pipeline of development projects and offered products. They would also be interested in standalone companies with attractive products.

Silicones: A client is interested in licensing in or partnering on new technologies that improve performance in silicones for a wide variety of applications

For more information regarding the above technologies, contact:
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Quotes of the Month

"A hero is one who knows how to hang on one minute longer." *Norwegian Proverb*

"A person often meets his destiny on the road he took to avoid it." *Jean de La Fontaine*

"Every problem contains within itself the seeds of its own solution." *Stanley Arnold*

"It is the wounded oyster that mends itself with pearl." *Ralph Waldo Emerson*

"Good ideas are not adopted automatically. They must be driven into practice with courageous impatience." *Admiral Hyman G. Rickover*

"Admit your errors before someone else exaggerates them." *Andrew V. Mason, MD*

"You never conquer a mountain. You stand on the summit a few minutes; then the wind blows your footprints away." *Arlene Blum*

"True success is overcoming the fear of being unsuccessful." *Paul Sweeney*

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Interesting Words

Quiescence: (kwee-ES-uhns) Noun
A state of rest, inactivity, or quietness.
In use: The negotiations entered a period of quiescence.

Maffick: (MAF-ik) Verb
To celebrate boisterously.
In use: He was so focused he was oblivious to all the mafficking going all around him.

Achates: (uh-KAY-tees) Noun
A trusty friend or companion.
In use: He was more than a friend, he was the only achates in his life.

Sisyphean: (sis-ee-FEE-uhn) Adjective
Endlessly laborious and fruitless.
In use: Until it was explained to me I thought the paperwork was sisyphean.

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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 <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>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. This edition and three of the last Perspective topics were submitted by others. 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.

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Trivia

1. What are the largest elemental components in the human body?

   96% of the human body is comprised of just 4 elements. Oxygen, carbon, hydrogen, and nitrogen.

2. What type of element is most prevalent?

   More than three quarters of all elements are metals.

3. Who created the leap year?

   Most people credit Julius Caesar. Calendars first had 304 days then the Romans created one that has 355 days but that was not working out well over time. Julius Caesar then created one that was 365 days but then an Egyptian astronomer named Sosigenes calculated that it was really 365.25 days so Julius Caesar declared that an extra day be added every 4 years.

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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 to our newsletter, please send an email to contact@paragondevelopment.com and include the word SUBSCRIBE in the subject line or message. We will never sell your email address to others.

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