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PARAGON Perspective

From the President

All of us at PARAGON wish you and your families a wonderful Holiday and a Happy and Prosperous New Year. We have been blessed in many ways this year and we sincerely hope all of you have prospered as well.

This month's newsletter will highlight our opinion on a business development topic: "Following the path of least resistance—short cuts rarely create the greatest value."

We had many responses to last month's newsletter in addition to several who were still responding to the previous month's essay about distribution as a mechanism for new business creation. Our thanks to all who took the time to respond.

Jack Peregrim
Pres., PARAGON Development

Paragon Update:

Business is starting to pick-up and many of the projects under discussion are using monies that remain in 2002 budgets. Although the majority of the outputs will occur early next year, clients are using 2002 money to get a jump on 2003. This happens every year but we did not expect it this year based on the depressed economy we have all experienced since 9/11 and the uncertain direction of the stock market.

Nano-Materials

It seems like yesterday, but it was 4-5 years ago when a project seeking uses for nano-materials concluded that it would require a major investment with uncertain returns and would be farther out than the company's criteria allowed.

This past year has brought an explosion of developments utilizing nano-materials that will produce very rapid growth for many years to come, particularly in pharmaceuticals, electronics, and plastics. It has been our experience that a new technology platform reaches this stage when customers invest as much in trying to **apply** new technology as is being invested by the originators. We see many nano-material developments at this stage now.

Newsletter Responses

Responses to the newsletter last month were split between general comments and those directed toward the essay on innovation.

Your comments are very much appreciated and we will do our best to incorporate your ideas while fulfilling our main objective to educate by sharing our experiences and those of our clients in a Forum that benefits us all.

Business Factoid

Any more doubts about Moore's Law?

Gordon Moore (Intel co-founder) predicted some 30 years ago that every dollar will buy double the amount of processing power every 18 months, and that the number of transistors on a chip would grow exponentially. "Moore's Law" has held true until today. Hewlett-Packard announced in September that they have created a computer memory chip using new molecular technology that takes miniaturization further than ever before. Using previously patented technology (nano-imprint technology); H-P scientists have designed a 64-bit memory unit that is smaller than a square micron. The memory contains 10 times more bits per square than today's most advanced DRAM computer chip memory devices. The chips need to be cheaper, faster, and more energy efficient. The H-P technology, partly developed in conjunction with UCLA, will move chip miniaturization much faster than Moore's Law would predict. The H-P work also combined for the first time both memory and logic by manipulating molecules caught in a grid of super thin platinum and titanium wires.

So much for the theory that all technology reaches maturity within a short time!

The Path of Least Resistance—Easy Isn't Best

Case Example:

A recent project was based on a polymer with applications in cosmetics and personal care products. Our client has been working with one of the major companies in the cosmetic/personal care field but the project was being dragged out without any realistic short-term commercial sales. Our client asked us to find new applications and markets that will create a revenue flow while the cosmetic/personal care platform, as well as another one, are in development.

We started very broadly and were able to validate the large overall potential of the polymer in cosmetics and personal care as well as provide competitive intelligence on the organization our client is working with. This competitive intelligence alerted our client that their "development partner" had been working on a competing material that they had developed internally and that the rest of the market (their development partner's competitors) were searching for a solution that our client already had to offer.

This created a two-fold problem:

1. Our client was already involved in joint development work that will make it difficult to switch without potential conflicts.
2. The development partner is a large customer in other business units of our client and taking their product to the competition could have an adverse affect on the other businesses.

Our client is in this situation because when it came to business development of a new product they followed "the path of least resistance!", a not uncommon business practice. It turns out that one of their first steps in commercializing their product was to attend a conference and, at this conference the first person they presented their idea to was their development partner. (It is uncertain whether or not this individual initially knew his company was developing a competing product and wanted to keep this new one out of the market.) A project review showed that only cursory cold calls were made to several other companies and none expressed the interest that the initial one did. In fact, the party they are working with called our client several times to get a commitment from them to move forward.

Based on our experience this is a common occurrence that has detrimental effects. We may make any of the following assumptions as to the “thinking” that creates this situation:

- Existing customers for present products are the best customers for new products.
- Customers who express the most interest early will deliver the earliest rewards.
- Customers who are the “friendliest” are also the most sincere.

However, the real reasons are different. The organization and its project had an incorrect mission. Their mission was to do “whatever we can to make our product a commercial success”. Their mission should have been “To objectively determine the NPV (net present value) of the product based on comprehensive intelligence and the exploration of multiple development approaches.” Although that may sound very academic and cumbersome it has much more practical value creation potential associated with it. This is **very** different from the first and most typical project/initiative mission and is highlighted by several key words in the mission that are critical.

NPV: This can only be obtained through a systematic process with checklists and other mechanisms that ensure things are not overlooked.

Objective: This helps overcome the bias of those within the project to “follow the path of least resistance.”

Multiple development approaches: This forces an equal consideration of options. If our client had looked at and was required to develop alternatives, they would have had to be aggressive about entering into discussions with several others even though the other potential clients were not initially amenable or available.

Keeping this short, our recommendation is simple:

Do your homework at the market level (Voice of Market™, independent consultants, internal process controls, etc.) before making commitments at the customer level.

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 www.paragondevelopment.com/resources.html.

Our best wishes for success and happiness in 2003!

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