

PARAGON Perspective

From the President

From all indications, business is improving for our clients and we are starting to see a more aggressive investment in new business growth. Those not making investments now are at least budgeting and planning to do so in the first half of 2003.

There is, however, a real polarization in some industries and even within specific organizations. Normally there is a bell curve with most organizations making moderate commitments to new growth and then a gradual tapering at each end for both those who are being aggressive and accepting greater risk as well as for others who are entrenched and fixing problems. We are now seeing our clients almost all in one “camp” or the other. They either have all investments on hold, or are committing to new growth by hiring new professionals, consultants, and others to move quickly. Instead of the “usual” bell curve, we see a “U” curve.

This month’s newsletter will highlight our opinion of the role (and need for) innovation beyond the initial planning and development stages.

Thanks for the dozens of responses to the last newsletter – most directed toward the essay on the use of distributors in new business platforms.

Jack Peregrim
Pres., PARAGON Development

Paragon Update

This month we have continued on projects as described in previous newsletters as well as starting several new ones with the following objectives:

- Optimize value creation for a new curing system for making EPDM.
- Identify new platforms in nano-materials that have a strategic fit with the markets and existing technologies of a global materials company.
- Identify new opportunities in building materials. Product platform focused.
- Assisting a major consumer company with positioning a “mature” product to target a different demographic group.

Blending

A recent trend we have observed is the creating of new growth platforms by finding the “gaps” between two existing platforms, blending attributes of each, along with new resources, into a third one. Many new product breakthroughs have been created this way. A good example is the SUV (sports utility vehicle), a blend of truck and car into a new platform. This is also being done in careers and disciplines, i.e. nursing consultants, a blend of two service professions.

We have seen companies having multiple divisions or business units seeking new businesses for investment that leverage components of two or more of their existing businesses to create a third

business unit. For example, a multinational company having both a dyes and pigments division and a polymer business were able to transfer IP from both units into a new division that manufactured a fluorescing polymer. They had a new business unit producing a new product targeting a new market. You can describe this activity as “gap filling” or “hole filling”, etc., but whatever you refer to it as it represents a valuable exercise to undertake when looking for new platforms.

Newsletter Responses

Responses to the newsletter last month were almost unanimously in agreement with the opinion that using distributors to launch new product platforms is not an optimal strategy. We did, in fact, receive emails and phone calls with concurring examples from many of our clients. One opinion that differed in some regards came from an individual in our PARAGON Network™ and his response is reprinted below:

As one of the many independent consultant contacts in PARAGON’s roster – and one who was used several months ago – I find the newsletter very useful. In particular, I am inspired to respond to the following quote from this newsletter:

“Our recommendations are:

- To use distributors primarily for logistical and strategic reasons on known, commercialized products except where there is a large enough present volume of business with the distributor to provide leverage.
- That distributors are not given primary responsibility for the first stage of commercialization and even for the first wave of growth.
- To have a clear exit option if a distributor does not achieve specified objectives that can be based on sales or even investment levels in market and applications development. Do not allow a distributor to lock up your product for a long period without tangible returns. “

I am involved on two major consulting fronts – Medical Devices/Regulatory/marketing (my place in PARAGON) and cosmetics/OTC product development and marketing. My comment points are simply an augment to the newsletters, and will relate to cosmetic/personal care products – the two markets are unrelated:

1. Distributors are *extremely* useful for small companies, start-ups and companies with limited capital.
2. Distributors supply the “brick and mortar” manufacturing, warehousing, and shipping.
3. During economic downturns, the small company does not have to maintain the sales force, building costs and distribution overhead.
4. Crafting distribution contracts for exclusivity only when specific sales goals are met is the **norm** in the industry and any **honorable** distributor will gladly agree to such restrictions – note the keyword honorable: avoidance by the distributor is a very clear warning sign to the company!
5. Distributors can be helpful in product commercialization where the product is an excellent meld with their own offerings – I have gone this route myself.

Just my thoughts from my experience.
Ronald Citron

Just as we were putting this copy to rest, we received another email responding to *The Role of Distribution/Distributors In New Business Development*.

“I was clearing out my inbox and took the time to reread your Oct. newsletter. You have probably received quite a few responses from distributors refuting your comments that new products should be taken to the market directly. I have been able to use distributors to effectively grow new specialty chemical products, but it takes 2 things:

- It starts with proper distributor selection. Not only does the distributor need a strong market presence in the key markets, but they also need to have sales people and management with an entrepreneurial attitude and a history of successfully developing new products. It may take a while to find this combination because the largest distributors usually focus on supply chain efficiency and not new product development, but they are out there.
- Once the correct distributors are selected companies will get the best performance if they provide a high level of support. Most distributors follow the "squeaking wheel" approach, but they also go where the money is. The marketing support must be constant and well focused with clear marketing plans and achievable goals. Assuming the product in question is a specialty, technical support must also be given early and often. Distributors can't effectively promote products if they are not comfortable with the technology.

Putting a great deal of effort into developing a good working relationship with distributors is the key to success. Companies can't expect good distributor performance if they are not willing to show commitment by providing the appropriate resources."

New Product Development Quotes

"Futurism for New Product Development is gathering the right information, making the right projections, and drawing out the right implications that are most useful in the product planning and development process. The difficulty lies in suggesting where the regression line starts to curve, changes direction, or perhaps even ends. This requires an uncomfortable logical leap." *Futurism: Fact From Fantasy*, Christopher W. Miller Editor, *Growth Forum* January, 1996

"The real voyage of discovery consists not in seeking new lands, but in seeing with new eyes." *Marcel Proust, French Novelist*

"Though product development management knows that market and customer understanding are key to developing successful products, why is it always an afterthought? And why does management continue to jump to develop products before they understand who will use them or how they will be used?" *Visions Magazine*, July/August 2002

"The systematic tracking of the wants, needs and problems of current and potential customers in the early stage is difficult, scary work. It's difficult work because we're not quite sure what to ask customers at this point in the New Product Development process, and scary because fuzzy is scary." *William Robson Growth Forum; Fear of the Customer...A Survival Guide for the Fuzzy Front End, Visions Magazine*

Business Factoid

New Business opportunity reported:

LifGem Memorials (Elk Grove Village, IL) has announced that, using available technology, it can turn a loved one's cremated ashes into a diamond by pressing and heating the ashes to 5,400 degrees Fahrenheit. A chemistry professor cited by the New York Times agreed that the plan was sound; carbon from the ashes converts to graphite which can be pressurized into a diamond. Prices start at \$4,000 for a quarter-carat. This certainly expands on the meaning of passing along personal keepsakes.

An Innovation In Teaching New Business Development

We are impressed and intrigued at a recently developed course by the CDMA (Commercial Development & Marketing Association) Educational Foundation. The course name isn't finalized yet but it is basically about teaching the basics of business development/technology commercialization.

What is most interesting is the format. The course is set up into 8 stages of development starting with the initial screening and going into post commercial platform extensions (growing the established business). Each module has 8 functional topics such as financial, resource requirements, manufacturing, marketing/sales, R&D, etc. so that optimal requirements at each stage are presented with a breakdown of the outcomes needed by the various components. What really makes the course unique is that it will be taught backward from the post commercialization stage. Therefore, when each module is presented, the students will understand how the activities required will be applied in the stage they are in, and also how it serves as a foundation for later requirements. We truly believe this is the best way to present a course that deals with processes that are time/activity progressive.

The course will likely run 2 days and will be taught by experienced industry practitioners. It is scheduled for early next year. We will announce a date in our newsletter in coming months.

The Role Of Innovation Beyond The Initial Invention

Case Example:

A project we were involved with several years ago had an objective to create a new business platform from a new breakthrough additive that could improve functional properties in several polymers without any increase in cost. In fact, there would be decreases in finished cost due to process cost reductions. Very strong opportunities were identified in packaging, molded forms, and decorative accessories. In a recent meeting with a representative of this company we learned that the project results have been disappointing although it is clear that there is a high value potential.

The main reason was the failure to be innovative in the commercialization of the additive to the same degree that they were innovative in developing the additive itself. Many experts in the project contributed to a business case that recommended the commercialization be within a different business model than that employed in the company's traditional business. For example, partnering with equipment companies to get to the customer in one of the targeted markets, focusing on specification selling in another, and selling the product in the form of a "cocktail" in still another model, where their material is mixed and sold with other materials that are purchased and blended by the company. The company insisted, however, to do things the "same old way". They had the invention so therefore everything else should be the same. Same sales force making another call. Sell to the resins companies and only the additive.

It is our experience that this is all too common --companies believe that innovation ends with an initial invention. They fail to recognize the potential value they could capture by being innovative in their business model, market approach, or position of their value chain entry.

Organizations believe that they are reducing risk and increasing certainty by following standard procedures that "have always been our model". There are two conflicting issues with this approach. The first one is that the best way is *usually* the way that an organization has set up its support structure. There are competencies and resources that are leveraged that are critical to the success of many, if not most, of the organization's initiatives.

The second issue is also an important factor and that is that many failures are because the organization would not, or could not, monetize the invention in the way that would create the greatest value. There are many reasons and the following are the most common we have experienced:

- The "implementers" do not have the experience or courage to "fight the battle" with upper management. It usually requires quite a sell to get the VP of Sales to give up a potentially

lucrative new product that would contribute to his/her revenue objectives. Even if an alternative sales channel is better.

- A focus on mission, strategic fit, and core competencies leads to a tunnel vision of options. A belief that the core competency created in support of present successes is a model to everything the company should pursue in the future with the same results expected.
- The belief that you would not be as harshly judged by failures when they have followed “accepted practice” as much as if failure was a result of “being too radical”. “Why “fight the fight”?”

Also an issue is the commercialization/implementation stages. In the early stages of commercialization/implementation there is a propensity to be innovative that is lost in the middle stage that gets “locked in” to “doing business as usual” as the plan is *finalized*. An experienced practitioner knows that surprises are the norm in all stages. Can you recall a launch in which everything went exactly as planned without having to make adjustments, corrections, and sometimes, complete course changes? A dynamic exists at all stages with a need to be pro-active in innovation in all stages of development. There needs to be approvals early, and approvals don’t come without specific commitments and focus.

Our recommendation is simple:

If your mission is to support your internal organization by leveraging your resources the same way all the time then keep doing what your doing! But, if your mission is to create new value for shareholders, owners, and other stakeholders, then you should look to be innovative **in every facet of your business and at each stage of every initiative**. This doesn’t mean that every development will be unique, but at least the ones that warrant it will be.

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.

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