

PARAGON Perspective

From the President

It has been a very difficult quarter for most businesses and we have seen this from many perspectives. This last month has brought us the largest number of resumes from past and present clients as well as those in our PARAGON Network™. We have had several delays and postponements of both new and existing projects, and the objectives of the programs are geared toward much nearer-term required results. We currently have only two clients looking for step-out new platforms while the majority of clients focus strictly on leveraging existing assets with smaller but quicker impacts. This trend is fairly standard across the various industries we serve - from high tech electronics to basic materials. Our European clients still tend to invest more in future business than the American ones. (More about European perspectives below.) Lastly, we see delays in the typical budgeting process. Several clients who typically create budgets in September and October for the coming year accustomed to a 4-6 weeks approval are now requiring the budgets to be created at the end of the 3rd quarter but are withholding approvals until December.

However, we do see things improving in the first quarter of 2003 with clients already budgeting and scheduling programs that were originally planned for this year.

This month's newsletter will highlight our opinion of the role of distribution and distributors in new business development.

Our best wishes to our friends and colleagues and to a prosperous and fulfilling finish to 2002.

Jack Peregrim
Pres., PARAGON Development

Paragon Update

Our Corporate Venture Partnering Program has generated a great deal of interest and the first partnerships are expected to be consummated in the first quarter 2003. They are likely to be with a global chemical company and a large, high tech electronics company. We are presently 'ramping up' for these programs and expect to form 4 partnerships in 2003.

Newsletter Responses

Responses to the newsletter last month were primarily about the potential for corporations to acquire or license technologies from the National Labs. Comments directed to us are exemplified as follows:

- "We haven't had much success in working with the labs because the technologies they have exposed to us are no where near commercially viable and the cost to complete the development is very high". (Chemical Company)
- "We are now seeing the same things you mentioned in your newsletter. There is a different attitude and framework within the Labs that has made working with them much easier...We are looking at have several encouraging things and are excited about the potential." (Electronics Company)

- "...one thing your readers should be aware of is that some labs are just better than others and they operate independently. We have had success in dealing with Oak Ridge but not others and it comes down to the specific people involved" (Materials/Packaging Company)
- "...and we agree completely with your insight on the Industrial Research Fellow Program...we have used it with great success. What seemed to be a high cost expense in the first two years is now being perceived as much more cost effective. A key is having a specific individual from the Company paired with a specific key contact at a Lab."

European Perspective

Our European clients haven't felt the economic downturn as much as the American ones. They have continued to invest in new business platforms at a level above those in the United States.

I met with my stockbroker (A G Edwards) last week and she had just returned from Europe the week before. Her colleagues there could not believe the levels of our market. They are increasing their buying as we are selling. As one of them put it, "I will buy GE stock at 14 times earnings every chance I can."

'Big Fish in Small Ponds'

One of our readers sent in an article to invite comments. It is about the excellence and success of major organizations that dominate the small cities they are in. Some of the points made are: that these Companies have low employee turnover, a more dedicated sense of purpose, and a local political and tax structure that supports them. There does not appear to be a common connection with the type of business but a noticeable percentage is in consumer goods or retail.

Examples we all know are: *Company, City (Population / Local Employees)*

Corning, Corning NY (10,842 / 5,200)	Maytag, Newton IA (15,579 / 4,000)
Dow Chemical, Midland MI (41,685 / 6,000)	Mohawk Industries, Calhoun GA (10,667 / 6,000)
Hershey Foods, Hershey PA (12,771 / 6,200)	Phillips Petroleum, Bartlesville OK (34,748 / 2,400)
Kellogg, Battle Creek MI (53,364 / 1,650)	Smithfield Foods, Smithfield VA (6,324 / 4,511)
Lands End, Dodgeville WI (4,220 / 4,354)	WAL-MART, Bentonville AR (19,730 / 20,000)

Global Software II Conference

We were invited to speak a few weeks ago at a conference in San Jose that was hosted by an organization set up to support and encourage Finnish organizations expanding to the United States. At this particular conference, the Companies from Finland were primarily start-up or early stage software companies. Several very unique capabilities were presented. The following are just a few:

- A 'spell checker' for buildings: regulations, codes, and other requirements are inputted to the program and requirements for materials, designs, etc are produced. This has great potential for many different stakeholders including fire marshals, home centers, contractors, insurers.
- A technology to interpret data about customers and end users to improve new product performance, design, and acceptance. This is a tool for both outside market researchers as well as internal company marketing groups.
- A technology/product that allows easy monitoring of blood pressure and other readings via a very low profile strap worn around the chest that transmits signals to a watch that displays the data. This can be used by people with health concerns, as well as those who are just interested in their reading while they exercise.

The conference had many other insightful speakers discussing topics such as marketing new products and compensation guidelines for marketing and new business executives. There was a large emphasis on funding alternatives for new enterprises with several noted speakers from the venture capital field including author, Arthur Lipper. Insights obtained from this conference include:

- Software intellectual property protection is much more difficult to attain in Finland than it is in the United States.
- The Venture Capital Community has really increased its scrutiny on potential investments with requirements raised considerably and a focus on much lower risk. The returns are still expected at a minimum 35% annual basis with hard penalties for the venture principals if hurdles are not achieved.
- The Venture Capital groups are still an eclectic combination of individual focuses and resources. They just are not as speculative as they had been in the 1990s.
- A major reason for failure in a new enterprise is the lack of funding for new business and marketing executives. Organizations continue to pump money into product and application development but attempt to do market development 'on the cheap'. There is still a mindset that making something with excellence will generate success because it will sell itself.

The Role of Distribution/Distributors in New Business Development

Case Example:

Several years ago a company with a new polymeric product sought to identify and qualify its opportunities. The best was determined to be in products used in personal care. The recommendation of the various experts employed was clear: the client should go directly to the market and have direct sales and technical support. Because the company was not in this market at the time, management decided to ignore the experts advice and go through established distributors to save time and cost. We have just been engaged by this company regarding this same technology because the product has thus far been a commercial failure. Why?

In our experience this is a common example. Too often, companies choose to go through brokers, distributors, or other vendors with very little success. There are many reasons for this but the main one is:

Distribution options are chosen to limit cost and investment and are not based on being the optimal channel strategy.

Companies fail to recognize the strengths and weaknesses of distributors.

Distributors are focused on their customers and not on their vendors. They are typically reimbursed through sales and therefore pay more attention to managing the existing base of products where the volumes are. They have the ability to consolidate, which may provide logistical advantages, but that consolidation comes from managing the products they represent, not creating new ones for new customers.

Distributors may have knowledge about their customer base (certainly more than a company that doesn't serve the market) but they are not set up for new business development. They don't get paid by time or the investment required for applications development and/or exploratory marketing necessary to succeed. So, although they have the needed access to customers, they should not be delegated the responsibility of commercialization. Yet, this is sometimes the expectation and unfortunately it is what distributors promise to ensure that their competitors do not represent a product *that may be a success*.

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.
- To not give distributors 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 investment levels in market and applications development. Do not allow a distributor to lock up your product for a long period without tangible returns.

We hope you learned something from this and/or it stimulated an action that leads to new opportunities for you and your organizations.

Our best wishes for success.

Your friends at:

PARAGON Development

WWW.paragondevelopment.com