

PARAGON Perspective

From the President

PARAGON Perspective is sponsored by PARAGON Development, an international consulting organization specializing in new value creation for corporations. This is accomplished through new business development and optimized planning in addition to corporate venturing. The purpose of this newsletter is to update, educate, stimulate, and enlighten our friends and business colleagues on many topics involving new business development as well as the world at large as it may affect our businesses and/or our professional interests. We are not intending, and will not use this communication to promote our business. There are other times and places and opportunities for that.

We hope to inspire debate and pass along information that may enable all of us to better understand and succeed in our new business objectives in the future. We further hope you pass these along to colleagues who may have mutual interests.

We want to use this forum 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 opinions.
- Share personal observations and even humorous items given to us by others.

We welcome your comments on any topic and we encourage you to contribute to future newsletters. The past few months we have received recommendations on newsletter content, and understandably, *some* people like specific topics while others want them eliminated. So, to address this we have decided to make the Futurist Update section bi-monthly or quarterly instead of monthly.

This month's newsletter will highlight our opinion on the business development topic: **"Value Creation—The Licensing Option"**

Jack Peregrim
Pres., PARAGON Development

Paragon Update

Projects delayed from a lack of funding, or funding hedges, is now moving from R&D into commercial development. We view this as an overall good sign of companies changing emphasis from reducing costs as a mandate to one of "Keeping costs down but investing where it is warranted".

Unlike past summers where project work was a continuation of work already in house, this summer we have been very busy with new project start-ups. We believe this is a sign of:

1. Economic recovery/expansion. Organizations are investing in new business development and are looking for the Voice-of-Market™ to gage their entry with new products.
2. The rolling out of projects that were delayed by several quarters while companies reviewed revenues (shareholder as well as private) in order to balance expenses.

We are also seeing an interest in services that are beyond the "fee for service" consulting, e.g. contingency based acquisitions and corporate venture partnering.

Technology Transfer

This section is open for clients, friends, and other newsletter recipients to spotlight technologies that they have available for licensing, acquisition, or development. 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 newsletter has a distribution of several thousand individuals who are primarily in new business development, so the audience is one that has the potential to generate legitimate interest. We only reserve the right to withhold posting any technology closely related to ones in which we have a client conflict.

This month's contribution:

A small company has recently received a patent on a fast-dissolving tablet technology and is started on potential continuations-in-part. The dry formulations make it possible to include coated particles for good taste-masking. Dissolution time is completely controllable - placebo tablets can dissolve as fast as Zydys placebos. Tablets can be made much harder, permitting the use of standard tableting equipment, but the dissolution time increases. The particles shatter upon biting, so fast-chewable tablets are a real possibility.

The company is interested in partnering with, or licensing to, a larger company which can run with the technology. If this is interesting to you, call Dr. Robert (Bob) Sparks, Director R&D, Particle and Coating Technologies, Inc., at (314)-535-1516, Ext. 4.

Quotes of the Month

"Knowing is not enough; we must apply.
Willing is not enough; we must do." *Goethe*

"One of the tests of leadership is the ability to recognize a problem before it becomes an emergency". *Arnold Glasgow*

"This one step – choosing a goal and sticking to it – changes everything". *Scott Reed*

"Effective leadership is putting first things first. Effective management is discipline; carrying it out". *Stephen Covey*

"The pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty".
Winston Churchill

New Technologies

We have a unique project that may be of interest in many fields. Our client is actually a consortium of dozens of separate companies with extensive patents (approximately 30,000 collectively) in a wide variety of areas. Many are in:

- Electronics
- Bio/Medical
- Sensors
- Materials
- Communications
- Devices
- Information Technology

They have asked us to help them look for opportunities for licensing their technologies into many new markets and our first "look" is in Homeland Security applications (defined very broadly to include government, military, and industrial markets) where new technology is required to meet the dynamic and changing needs for security.

If anyone has an interest in specific technologies available, please contact us as shown below. We would qualify the type of technology sought and either respond directly or, more likely, pass the request directly to our client.

Your contact for additional information should be: Peregrim@PARAGONdevelopment.com, (203) 288-4154.

Web site additions

We are planning to upgrade our web-site in the coming months and will be adding to our alliances and partnerships page, which provides sourcing to our clients on services that they may be seeking in specialized functional or industry areas. As such we will post organizations and individuals **who we know** to excel in products and services.

If you would like to be included in this listing (free of charge), please submit a request to us with a short (50 word) description of your product and services, as well as direct contact information. We view this as a mutual service to our clients as well as companies, consultants, and other entities we have had the pleasure to work with.

Value Creation---The Licensing Option

We have addressed licensing and technology transfer in several newsletters over the past year. We feel it is worth continuing the debate, as there seems to be continued interest and growth in licensing earlier in the process and with more strategic commitment.

Right now, we see licensing as either considered the back-up strategy to traditional product/commercial development, or development with licensing as the primary initial objective.

Examples:

Case #1:

We are working with an organization that has a large patent portfolio and did not commit any significant resources to licensing. The businesses and technology areas would generate patents with specific products in mind and the intellectual property was almost completely oriented toward supporting innovative products that would be made and sold by the businesses. If the technologies had value in other applications, and the client was approached, they would consider a license but didn't make the concerted effort required to create a licensing environment that would encourage others to come to them.

Case #2:

A company has come to us with a completely new technology they want to license. Their rationale is that they serve a market that is long term, with high barriers to entry. They are used to serving this market but they recognize that the technology has value in other markets that they don't serve, and have shorter term potential for commercialization.

The decision to license outside their market (automotive) was based on the following rationales:

- Applications development in other areas (optimized by their licensees) will help them in optimizing their own applications development.
- They will have a revenue stream from up-front payments plus royalties that will help cover their early stage costs as their target market develops.
- They will shorten their time to market in getting speced into automotive as the technology will have been proven in other applications commercially which will appeal to a very conservative industry.
- Risk is lowered as the technology will have to prove it's competitive advantage in other non-strategic areas before major capital has to be committed in their targeted market. Unforeseen "glitches" will occur in a different market with different suppliers.

Licensing Strategy Stages

1. Black box: This organization keeps all it's development work in-house and is convinced that letting it out will give others an advantage that will destroy them.

2. Opportunists: An organization that will license if approached and if CONVINCED by the licensee that the deal is too good to pass up. They also may make a small effort to market the technology (or other IP) after it is determined that the organization has no interest in it. The “opportunist” organizations run the risk of having those employees who are entrepreneurial leave the Company with technology and form start-ups.
3. Planners: They clearly see the value of licensing and consider it early in their process as a strategic option. Licensing to them is as important as creating new products or platforms for their present business. An NPV is done early on and if the result is higher through licensing that will be the organizational commitment.

A 4th category would be an organization that truly considers itself to be in the business of science and where their value is created through licensing. This is more of an academia approach.

It appears that organizations that don't embrace a licensing strategy are dealing with hurdles based on cultural as well as personal reasons. In our many years of experience, the following represents what we have heard and found to be reasons not to license:

- The patents are ego patents that would not stand up to independent market valuation. Heads of R&D and/or individual inventors get “kudos” and bonuses for developing patents for their company, though in the marketplace they may have little value.
- Companies have a strong (and usually misguided) belief that they are the best at commercializing their technology in every application and in every market. The thought process is “Who could possibly do as well with our own technology as we can?”
- Companies fail to recognize that patents and other IP require an investment in time, money, and people to ultimately create the value that their potential will allow. We worked with an organization that felt that a staff of 5 people would be enough to create over \$100 million per year in new revenues! They didn't know “how many frogs had to be courted to find the prince/princess” -- or the time necessary to complete each deal.
- Companies don't catalog their technologies and/or they do so in a way that others may not be able (or motivated) to clearly see where the technology is a valuable enabler to their business.
- The organization's strategy is such that they have objectives and expectations in the categories above, but their effort is in 1-2 categories. E.g. An organization that would only make technologies available for licensing that were without any value, and then don't understand how the market could show little interest in a new technology they decided to license. Potential licensees had to also expend time, personnel and funds to review this potential licensing opportunity -- which wasted time and money and made them reluctant to engage in discussions with them again.
- A lack of experienced and trained people on staff or available as consultants to properly execute a licensing strategy. This is a dynamic area with dynamic growth but it also requires a great deal of sophistication and experience and the pool of people available doesn't come close to matching the overall needs for people.

We will close with a few summary comments about licensing. It would be impossible to cover this subject in a detailed or meaningful way in a few paragraphs so we have basically limited our comments to sharing major trends we see and how they fit into our client's business development & commercial development objectives. A good source for more information is the Licensing Executives Society, which can be found at WWW.LES.Org.

Licensing is an underutilized tool in most organizations and can be more effective than internal product development in many cases. It can also be a very powerful complementary tool to be used in conjunction with internal development and not just an “either-or” alternative. And lastly, it is not without it's own risks, but the upside potential over a large patent portfolio is almost always larger than the downside.

Business Factoids

US Workforce.

The US workforce in ages 45+ is growing while all other age bands are shrinking.

47.7% of the workforce is above the age of 40 and it is forecasted to be 51.4% in 2010.

Sweet Tooth

US per capita consumption of sweeteners including sugar, syrups, honeys, etc; increased from 137 pounds in 1990 to 158 pounds in 1999.

Also, Americans consumed 76 billion pounds of red meat and poultry in the year 2000 which is up 21% from 1990.

Recycling

Many people take recycling for granted, thinking it might not make much of a difference. However, a good example of a product that is well worth the effort is the recycling of aluminum -- which is very energy intensive to process. Reports show that the total energy saved from recycling one can of soda is equal to about half a gallon of gasoline. That is a lot of energy saved, and doesn't include the environmental value of eliminating the search for and extraction of new raw materials.

The Boomerang

This isn't a 'business factoid' but was forwarded by a reader and is a very interesting physics factoid.

We are all aware that one of the most interesting features of a boomerang is that, when thrown correctly, it will return to the thrower. This is a very interesting concept of physics that relies on the concept of lift in combination with the concept of spinning gyroscopes unwillingness to deviate from it's position.

When someone throws a boomerang properly, it will spin vertically forward. The smooth, curved surface on the top gives it lift. However, boomerangs are designed so that one wing will get more lift than the other. As a result, that wing will tend to lift itself higher than the other does at a particular moment. This will attempt to twist the boomerang over to be spinning horizontally, which it can't because it is spinning at a high speed vertically. To compensate for this, it makes an opposite reaction to its velocity and the arc of the boomerang becomes a full circle that takes it back to the thrower. This concept makes it much like a gyroscope with its complex movements that give it its unique properties.

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

Our best wishes for a successful and prosperous conclusion to 2003.

Previous issues of our newsletters can be found at www.paragondevelopment.com/resources.html.

Your friends at:

PARAGON Development

WWW.paragondevelopment.com