

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.

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.

This month's newsletter will highlight our opinion on the business development topic: "**Alliances & Collaborations; Permanent Strategy**". In addition, Russ Koch will add a piece about his views on quality processes. Russ is a Vice President of PARAGON and a key member of our management team who will add contributions throughout the year.

Jack Peregrim
Pres., PARAGON Development

Paragon Update

Overall, most of our clients reflect a business climate that continues to be sluggish, but the number of organizations making tangible (funded) commitments to growth is picking up. This quarter has more activity than last and we have many clients already scheduling projects for the second quarter. A general observation is that there does not appear to be a gradual transformation from organizations that go from 'being on hold' to having a primary focus on new products, acquisitions, and other growth mechanisms. Our clients are either making very rapid changes in focus, or they are staying in a conservative cost cutting mode.

In January we spoke at the CDMA conference in NJ on the Voice of Market™ benefit toward a comprehensive look at market opportunities before locking in too quickly with specific customers. The response was very positive.

Jack Peregrim will represent Paragon Development at the Informex conference in New Orleans, February 25-28. This year's theme is "Creating Connections for the Custom Chemical Industry. Informex is sponsored by the Synthetic Organic Chemical Manufacturers Association. This event is always well attended, and the Paragon team has always found it to be educational.

Paragon will also be taking part in a very well conceived and valuable "short course" in Commercial & New Business Development Basics in Baltimore from March 10-12th. The course was developed and is sponsored by the CDMA Educational Foundation. We would be more than happy to supply additional information or you can visit the CDMA web-site www.CDMAonline.org. It would be well worth the time and investment to send anyone in your organization who is either moving into or has less than 6 years experience in new business development. Even experienced professionals will pick up new things.

Quality Processes **Russ Koch**

In a recent article in Chemical and Engineering News (January 6,2003); Rick Mullin discussed the strengths and limitations of Six Sigma as a quality program. He discussed how implementation of many of these programs becomes an end in itself rather than acting as a tool toward achieving other strategic objectives.

In the 1950's, W. Edwards Deming, showed the benefits of a good quality program. His teachings were embraced more so in Japan than the U.S. and helped Japan's manufacturing grow and develop with recognized achievements in quality improvement. Since then, many new quality programs have been introduced including: TQM, SPC, statistical process control, ISO 9000 and others. Each program was considered to be the solution that will allow an organization to ensure business success and eliminate deficiencies. After a period of time, they each lost their luster and were replaced with another "best process". A major reason was lack of staying power.

The major difference between Six Sigma and other quality programs is that it requires all employees to be involved from the CEO down to the lowest level. This quality system is not limited to incoming raw materials, manufacturing, or quality control. Rather, it involves marketing, sales, order entry, customer service, and even personnel. The program also requires that each mistake or problem that arises is investigated and changes are implemented that will prevent the occurrence from happening again.

Regardless the program, it must be remembered that it is a work in progress. There are two things that must be understood to ensure that value is optimal:

- The program must involve every employee.
- The results require major business and cultural changes.

A quality program does not need slogans, fancy names, or a lot of fanfare. Rather, it needs total commitment. Everyone has a responsibility and the goal is not optimized internal processes, but it is to give customers quality products and services without any explanation needed about "how".

Employees need to understand that mistakes will happen. It is important that the mistake is caught earlier rather than later. A mistake is only a manifestation of an overlooked detail not caught or identified. Identifying a mistake also requires understanding the root cause so the problem is fixed at its source. It must be stressed that employees who identify and report mistakes do not face recrimination, and, that the process always takes a back seat to delivering a reliable, consistent product to the customer.

I personally implemented variations of these programs while in industry, setting high standards on “out the door” quality. It took 2 years to achieve the objectives, but once established, there was over 10 years of continuous improvement that was noticed by the customers without advertising or promoting the process.

Rick Mullin also noted that companies such as DuPont, Dow, and GE embrace the principals of Six Sigma and have had much success with the process. However, a common practice among them was that they modified the system to fit their individual needs for new product & business growth. They continue to adjust their processes to the changing business environment which is not as rigid in principle as the ‘text book’ application, but it has allowed them the ability to achieve very tangible results in addition to commit long term to the process.

The key point: A quality program involves much more than implementing a generic process. It requires adapting the process to the company, constant work, and long-term commitment. It is always a work in progress.

Alliances & Collaborations: Permanent Strategy

Case Example:

We were asked to review a company’s portfolio of technologies and identify and help commercialize them into initial applications, or, in some cases, to extend them into new areas beyond the first products. When we started the project we were also briefed on technologies that we were not to consider as they were developed within their strategic collaboration agreement with another organization. They explained that their agreement was to be a ‘seamless development partner’, which means they have access to people and information from their strategic partner at a level well beyond anything in the past but they would develop products and solutions exclusively for the partner with or without a protected IP position.

We visited our client’s strategic partner last month on a separate issue and had the opportunity to discuss their approach to alliances, partnerships, and collaborations. They readily confirmed that they have intimate arrangements with a very few selected suppliers who have the following:

- Demonstrated capabilities in desired areas.
- Proven track record.
- Synergistic cultures and personnel compatibility.
- Willingness to share risk.

None of the above is really unique in a general sense as most all of us have formed and worked with alliances and collaborations. What is new, and gaining considerable momentum, is that organizations are:

- Looking for collaborations as a first choice.
- Willing to, and even embracing, them with as much strategic importance as they do their traditional new product development.
- Using collaborations as a means of achieving strategic competitive advantage and not just a tactical advantage.

Many different terms apply to these collaborations and can really be used interchangeably (Partnerships, alliances, etc.). The mechanics can involve dozens of agreements that range from a “hand-shake (yes, we still hear they exist) escalating up to joint development projects with investments that would rival many large capital investment projects. Licensing, channel partners, marketing alliances and many more types of collaborations are becoming the norm.

Another example: Consulting organizations always seemed to be talking with others about “sharing” work and collaborating on future programs. But, the bottom line was that most organizations were just hoping to get into other consultant’s projects as a means of securing new business. It was rare that they actually

started out a client project with an intention of sharing the limited client's budget with others. Yet as an example of how the environment is changing, we recently (2002) brought 2 separate consulting groups into PARAGON projects with an initial intent to do so and we involved about 8-10 others in projects in significant but less strategic ways. We also had 2 other consultants bring us into their projects in significant ways. Each client shared how pleased they were at our willingness to collaborate with others to benefit the client, and that we will be "first in line" on new work because of it.

The rationale we employed was unique to each client, but the following were common to all:

- The talents and resources were complimentary. Not different, clearly complimentary.
- Demanding clients were involved who had complex needs that could not legitimately be satisfied by the resources of a single organization.
- We recognized (selfishly) that we would have spent a great deal more of our own resources to deliver what another could do more efficiently because it was their core competency area.
- Consultants are starting to actually "walk the walk" when it comes to more open sharing of resources where in the past it was primarily "lip service".
- Consultants in the business for the long term (not for a long time) recognize that the environment is so competitive that client satisfaction is the only key to success. Success does not come from maximizing revenues on every assignment.

In summary:

To steal a phrase from Silicon Valley, unless you have a well-protected "killer app", you better have very strong collaborations or you will find yourself competing with others who have them.

Company Policies — A Parable

One of our readers sent us the following and although it is not new, it is worth repeating for anyone who hasn't seen it.

Start with a cage containing 5 monkeys. Inside the cage, hang a banana on a string and place a set of stairs under it. Before long, a monkey will go to the stairs and start to climb towards the banana. As soon as he touches the stairs, spray all of the monkeys with cold water. When this happens with other monkeys over time and with the same result (All monkeys get sprayed) a pattern is recognized. Within a short time, the other monkeys will stop any other who tries to climb the stairs.

Now, put away the cold water and replace one of the monkeys. The new monkey will see the banana but is attacked by the other monkeys whenever he tries to climb the stairs to get the banana. He soon stops trying because it isn't worth being attacked.

Removing the original monkeys one at a time perpetuates the pattern where new monkeys are attacked if they try to climb the stairs to get the bananas. The ones who had been attacked but haven't been sprayed have joined in with the others to attack the newcomers who initially feel it is a good idea to get bananas that are obviously available to them. An interesting factor is that the monkeys who had replaced old ones are now joining in on beating on the new ones but they don't even know why other than that is the protocol when a monkey wants to climb up the stairs.

After replacing all the original monkeys, none of the remaining monkeys have ever been sprayed with cold water. Nevertheless, no monkey ever again tries to climb the stairs and get the banana. Why Not? Because they have learned that "that's not the way we do things around here". Thus policies begin and become part of our organizational framework.

The individual who forwarded this said they commonly refer internally to certain management responses as 'bananas' which is why we are asked not to share the originator.

Quotes of the Month

“Rome did not create a great empire by having meetings, they did it by killing all people who opposed them.” *Source unknown*

“The toughest thing about success is that you’ve got to keep on being a success”. *Irving Berlin*

Business Factoid

Water is tops!

The fastest growing beverage segment continues to be water. Giants like Coca Cola have announced that they have major plans to launch and promote new vitamin enriched drinks. Success will depend on them becoming part of the consumer’s health and beauty “regimes”. Not only is water the fastest growing segment, water enriched nutritionally is the fastest growing part of the water market.

Packaged water is more expensive than soda in most cases, especially with each time a new additive is involved. It seems like it is only a matter of time until we add carbonation and flavorings and come full circle.

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!

Your friends at:

PARAGON Development
WWW.paragondevelopment.com