

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.

This month's newsletter will highlight our opinion on the topic: **"Is our market research effective?"**

Jack Peregrim
Pres., PARAGON Development

Paragon Update

Our organization has just undergone a major restructuring that was facilitated by:

- Our requirement for a new organization that will be better positioned for our Corporate Venture Partner program. The new organization will be in an optimal position to establish distinct P&L and legal entities to reflect the expected technology equity positions the Company will be involved with.
- The involvement and commitment of new investors.

We are proud to become part of PARAGON Growth Services LLC.

New project starts are on schedule for this month. Our goal is to highlight a project each month to involve our readers. The project we will focus on this month is described below and is 2 new breakthrough technologies in capsules and tablets for one of our diversified global clients with a large healthcare business segment.

A good sign of initial economic recovery is the continuing number of projects scheduled over the next few months in which capital spending is involved. This continues the evolution from the projects in which organizations have a focus strictly on optimizing returns from invested capital in the form of technology, plant/equipment, or market access. Growth seems to be back as a main priority - and with funding to back the verbiage.

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.

We had 2 contributions since last month's newsletter but are awaiting approvals from each firm's legal department to publish them. They should be in July's newsletter. If you have a listing you would like to have posted please remember to "pass it through" legal to make sure we have the approval to run it.

Quotes of the Month

"The genius of a good leader is to leave behind him a situation which common sense, without the grace of genius, can deal with successfully". *Walter Lippmann*

"An expert is someone who knows more and more about less and less, until eventually they know everything about nothing". *Anon*

"Making mistakes simply means you are learning faster". *Weston H. Agor*

"No enterprise is more likely to succeed than one concealed from the enemy until it is ripe for execution". *Niccolo Machiavelli, The Art of War, 1521*

"To command is to serve, nothing more and nothing less". *André Malraux*

Capsules & Tablets

We have a client with several novel technologies that are about to go commercial with our assistance. The two technologies are:

1. A non-gelatin soft capsule that has the same appearance and functional properties of existing capsules but also has the following advantages. The capsule composition is animal free and regulatory friendly. The capsule has better storage stability than conventional gelatin-based product (resists cross-linking, better oxygen barrier, low sensitivity to moisture and reduced rancidity). It is seamless and has a much lower failure rate from leakage. It can be formulated for immediate drug release or enteric (acid resistant). Significantly thinner shell walls deliver the same strength and allow for increased loading or smaller capsules.
2. A color coating for tablets that is not based on HPMC and has the following advantages. It is a single mixture system that processes much better and easier than existing systems. Easy coating preparation, along with fast 25% or more improvement in productivity. The new coating system uses known pharmaceutical ingredients, has film strength equal to/greater than existing standard, and produces a more vivid color than HPMC with the same pigment content. Trials of finished coated tablets have demonstrated beneficial sensory properties, particularly in 'ease of swallowing'. As with the capsules, the new color coating provides at least equal protection in regard to tablet strength and drug stability.

These technologies are in the initial stages of commercialization with a few, select applications showing documented and clear advantages over alternatives. Beyond our support to commercializing these, we are interested in identifying new partners, markets, and customers who would have interest. You may contact the project manager: Barbara Heimlich. She can be reached at: Heimlich@PARAGONdevelopment.com or at (203) 378-6776.

Request for Case Study **Commodity → Specialty**

Last month we posted a request from a client who had asked us if we knew of any case studies/success stories in companies moving from commodity/volume based to specialty or added value products based businesses. We received many more responses than we can acknowledge so we will pass along the following as representative or the feedback we received:

From: Chris Moreton

Penwest may be an example. In 1991 they were principally a starch company with paper, food, and some industrial products. They made an acquisition (Edward Mendell Co) that brought microcrystalline cellulose and some drug delivery technology. This gave them a base to build on in more specialty products. They split the Company in 1997 and that facilitated a focus on excipients and drug delivery systems while spinning off the starch & food business. In 2003, they sold the excipients business which left them in the very dynamic drug delivery business.

From: Mark Cavender

Microsoft can be a good example. They have and are continuing to move from a product based company to a solutions provider with new ways to capture value. And, they have successfully integrated the two into specialty offerings even with their large market share.

From: Ken Stern, KPMG

Two examples are Ashland Chemicals and Dupont. Each moved from offering primarily commodity based products into organizations where the greatest investment and returns are in much more differentiated, specialty offerings.

There was also agreement in many of the responses that the following represent the best ways to succeed.

- Set up two distinct business units in transition, each with separate structure and with no considerable contact. Gradually increase investment in one and use the other as a “cash cow” or sell it off.
- Make a decision and just immediately sell off (or LBO) the commodity business.

We couldn't resist passing this along.

A web-site sponsored by a rap artist automatically translates other web sites into “rap slang.” You can gain access to most any web site thru their site. The interpretation of the web site from “business word-smithing” to rap brings a new twist. If nothing else, access CNN from their site to listen to today's headlines. Your own web-site would also be enlightening!

The site is: WWW.asksnoop.com

Two things. Number 1, we do not endorse this site and Number 2, we have no idea what a “shizzolator” is.

Is our market research effective?

Case Example:

Company A has made a considerable investment of time and resources to create a new business platform that is presently close to \$20mm in top line revenue per year. The platform is losing money and there doesn't appear to be any “quick fixes”.

Much of the blame comes from entering this business based on faulty information. They are in a field with a market that is growing, is considered attractive, and typically has high returns. Unfortunately, they are in a very competitive segment, with entrenched competitors, and this segment is receiving pricing pressure at a higher level than warranted by its size.

The reason this happened was because the business case was based on good, solid **market** research as required by Company A's standard stage-gate process. The market segment was growing and there were only 2 competitors of any note. Company A was larger, with resources and assets that should provide an advantage.

The market was sustainable over a long term and there were no major new technologies known in the pipeline that could change the dynamics. Company A benchmarked both themselves and how they successfully entered a related market with great success; and they also benchmarked one of the two major players who they compete with in other areas and had successfully captured share in this segment just 7 years ago.

What happened?

Upon announcing plans to enter the market with a value proposition based on new technology with modest improvements, the competition locked in major customers with long-term contracts. Customers quickly recognized that they could squeeze concessions from existing suppliers, driving down pricing. The existing suppliers also decided to make a strategic stand that would discourage Company A from trying to enter other areas beyond their initial entry. Suppliers increased R&D to improve their technology to ensure an advantage. All this added up to a scenario of “No room at the table” for Company A.

How could this have been avoided?

The first answer is that it may not have been avoided. There are no certainties in new business development as the effort, by its very nature, changes many factors and the variables cannot be completely predicted. The risk can never be eliminated but it can be reduced.

Company A had done the market research that was called for, but they did not invest in competitive and business intelligence research as part of it. The three main reasons were cost, desire to keep everything in-house for security (Confidentiality), and because the champion was being a champion. Doing what was necessary but not looking for or emphasizing potential threats because that would put the initiative at a disadvantage with other investments his company could make.

There are a few key lessons in this case.

- Competitive intelligence, formal scenario planning, and business intelligence are distinct from market research and should be required prior to major investments, regardless of how favorable the market research had been.
- Over reliance on easily gathered and accessed information. There is the ability today to access tremendous amounts of information via the Internet as well as from multi-client studies developed and published by the well known, and not so well-known. There is a tendency to enter a comfort zone with the available information because it is exponentially greater than what was available a few years ago. Getting an edge does not come from information that is accessible to others!
- The champion should have single point accountability but not complete independence.
- The risk of security is valid but the greater poison is in not getting outside and independent perspective.

Our recommendation is to add competitive and business intelligence to your gates. This information should be based on acquiring primary intelligence and not data searching alone. Real people should be getting the intelligence from real people.

“The earlier the better,” a mantra that applies to many business principles is applicable for market research also. Primary intelligence gathering methods will uncover new perspectives about internally generated future projections. The new perceptions may not be accurate but they need to be investigated. Even if a scenario is uncovered about a new technology that *could* be a discontinuous innovation and it turns out to be less a threat than thought; it still should be investigated, which takes time. So start early so as not to delay the time to market.

The earlier you recognize a threat, the sooner you can either do something about it or terminate your investment based on unacceptable risk. Your investment (cost) only compounds over time. The earlier you do something the better. Most people look at requiring these activities only when circumstances warrant them instead of recognizing them as success factors as valuable as differentiation of technology.

Market research is typically orientated towards being historically based. To understand the future with the least uncertainty, you need to emphasize **intelligence**.

Business Factoids

Children in Control?

Children between five and fourteen influence 78% of total grocery purchases. (From PRN Newswire).

According to the U.S. Market for Kids Foods and Beverages, kids between the ages of 5 & 14 will directly control \$10 billion in food and beverage spending this year, and will influence the vast majority of purchases made in this category.

And without frequent flyer miles!

A Laysan albatross tracked by biologists has flown more than 24,843 miles in flights across the North Pacific to find food for it's chick in just 90 days! These flights were equivalent to circling the globe. (From biologist David Anderson, Wake Forest University)

Baby Spiders

Australian scientists have identified some species of baby spiders that bite off the limbs of their mothers and slowly dine on them over a period of weeks. The researchers hypothesize the maternal sacrifice keeps the young from eating one another. (Nature)

Oops

Harvard researchers have concluded after careful scientific studies that Coca Cola is not an effective spermicide.

Views of the Future
From "The Futurist"
Published by the World Future Society

Resources Focus

Good news, bad news for water in Africa. Enormous amounts of pure water exist below the deserts of Africa, which could help avert a future water crisis. But, the underground aquifers cross international boundaries, raising the specter of future wars as populations increase and competition for water resources heats up.

Electricity from trees? A gasification process for turning wood into a fuel for electricity could provide cleaner power to remote areas of the world. The new wood-gasification generator breaks down wood into smaller volatile compounds that can be burned cleanly.

Soybean power is projected as a means to make air transportation cleaner and safer. Using jet fuel blended with soybean oil rather than petroleum-based diesel fuels could reduce harmful exhaust emissions. A bonus benefit: soy-based bio-diesel fuel is nonflammable, making it also safer than traditional jet fuels.

World oil production will finally begin declining by 2010. This will occur as new technologies lose their initial effectiveness in finding and recovering any more of the planet's limited supplies of petroleum. The result will be higher energy prices and global economic disturbances, according to Princeton University Geologist Kenneth S. Deffeyes.

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:

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