

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. In the past few months we have received advice and recommendations on the newsletter. It seems *some* people like specific topics while others want them eliminated. We have decided to make one change, and that is that the Futurist Update section will be bi-monthly or quarterly instead of monthly. We will have one with this edition and would like to receive comments about interest in it.

This month's newsletter will highlight our opinion on the business development topic: **"Filling the Opportunity Gaps"**

Jack Peregrim
Pres., PARAGON Development

Paragon Update

This summer an unusual pattern evolved for us as well as other consulting organizations we interact with. This summer marked the first time in my experience that companies not only started new projects, but pushed for business initiatives to be completed before October 1 in order to begin the budget year with additional projects.

Summertime has traditionally been a period of continuation or completion of projects already in house, or doing really quick project to address a specific problem or get clarity of a situation, and to accommodate summer vacations for clients as well as the European companies.

Hopefully this activity points to:

1. Economic recovery/expansion. Organizations investing in new business development looking for the Voice-of-Market™ to gage their entry with new products.
2. Pent-up demand due to delaying spending in previous quarters.
3. Corporate reorganizations (mainly reductions) in the previous 3 quarters that put work on hold.
4. Changes in strategy from acquisition focus more on internal development that requires project investment at a level not seen recently.

We are also seeing a continued 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 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 is:

A major specialty chemicals company is looking for products, materials, and technologies that would be applicable in cosmetics and toiletries, particularly those going into specialty/niche applications. They are a known and respected supplier and are looking to expand their portfolio. If anyone has knowledge of or is in possession of such a technology, please contact:

Jack Peregrim: Ph: (203) 288-4154, e-mail: Peregrim@ParagonDevelopment.Com

Quotes of the Month

"Sometimes it's not enough to do your very best. Sometimes you have to get the job done." *Winston Churchill*

"The great leaders are like the best conductors—they reach beyond the notes to reach the magic in the players".
Blaine Lee

"It has been my experience that folks who have no vices have very few virtues". *Abraham Lincoln*

"I not only use all the brains that I have, but all the brains I can borrow". *Woodrow Wilson*

"You are not thinking. You are merely being logical". *Neils Bohr*

New Technologies

A repeat of a technology that was highlighted several months ago is appropriate because greater clarity about its value has been uncovered through the Voice-of-Market™ Process.

A water-soluble inorganic antimicrobial that has the following values:

- Release can be "dialed in" for antimicrobial release in predetermined hours, days or weeks based on exposure to water.
- It can be processed in temperatures up to 500°C, allowing it to be incorporated into or onto many textiles or fabrics.
- It is a nano-structure.
- It can utilize silver for food/medical applications and can also use more inexpensive and common metals such as zinc, iron, tin, copper, etc.

Some applications already qualified are:

- Medical coatings
- Filtration (water & air)
- Caulking and sealants
- Food processing
- Packaging

For additional information contact: Barbara Heimlich-- Heimlich@ParagonDevelopment.com (203) 378-6776

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.

Filling the Opportunity Gaps

We have been involved in many projects in which clients look for synergies between business units or combinations of previously stand-alone technologies. The terms used internally are usually ones like: filling the white space, tier two opportunities, capturing the gaps, combination efforts, and cooperative innovation. Right now more companies have this as a committed (funded) objective than there has been in the past.

Examples:

Case #1:

An organization with many business units, and even within a single business division (specialty chemicals) they have over a dozen separate P&L driven businesses, rarely looked within any of the divisions product groups at new growth in cooperative ways outside their own distinct team. They have now recognized that they have been doing more external partnering than internal, and these partnerships have had a few dramatic successes with a corresponding visibility that is encouraging more of them. Again, and this is ironic, they have done little within the confines of their own organization. This organization has now funded an effort that will start intra-division joint developments first and then expand to inter-divisional.

Case #2:

A client on the front-end of the process has recognized the value of collaboration but hasn't secured the funding yet to formalize the process within the company to provide the necessary message to those involved, that this is not an informal activity and serious and measured results should be expected. The client is hoping to receive adequate funding starting October 2003, and then launch the effort with dedicated oversight by January 2004.

Past hurdles:

There are many reasons why activities such as these haven't been embraced or haven't had major successes.

- "Jack Welch hasn't done it" – This can be viewed as an important factor and, of course, isn't limited to Jack Welch. Many new business programs and processes are still driven by publicity, hype, and media attention. No major name "guru" has embraced this.
- Organizations have a P&L responsibility, yet accountability has been pushed much further down in the organization. This has reduced, if not eliminated, the time and resources that may be justified to an effort such as this. Additionally, it requires equal dedication from multiple parts of organizations, difficult to achieve as each business unit has different problems and priorities at any given time.
- The burden was not always evenly distributed within the organization. For example, a client started up a new venture involving nanotechnology. This venture was targeted by the other 16 business units, which were mature and looking for opportunities to leverage new technologies like these. However, the nanotechnology venture was typically understaffed, and did not have the revenues to support the venture. Because of this lack of funding, the venture needed to keep its initial focus on its external targets until it had proven that it was viable and sustainable. This left no time to explore synergies internally.
- Internal politics – this can hamper internal development more so than external alliances and partnerships. External efforts are driven by mutual benefit. Internal alliances can create a situation where each party tries to gain an advantage through higher level support for "strategic value" reasons.

- Funding. Funding. Funding. This is the biggest reason why these efforts haven't succeeded. Top management makes a statement that the organization is going to work together and find new cross-business opportunities. However, any money dedicated to it will come from limited resources within each business, and top management is also demanding immediate contributions directly related to operations and new products. When the choices have to be made by the leaders in the individual businesses, they will choose to deliver results now over the uncertain returns by working with the other businesses.
- Dedicated personnel. What company today hasn't "slimmed" down its workforce, less people doing more work! Yet, when the decision is made to look at both internal and external synergies for a product or technology companies expect the work to be done by divisions/employee's whose plate is already full.

This activity can be viewed as "fishing and farming". A typical business culture is one of farming – it generates ideas, grows them into concepts, then nurtures them to produce results. In cross-combining new opportunities, the approach will require casting many different lines and recognizing that the initial effort may not produce results until the line is recast in a new area. Businesses typically have a difficult time understanding and relating to business processes that have different approaches to ones they presently engage.

There are solid business drivers justifying this effort, and organizations are recognizing them to a much greater extent than in the past. For example:

- Many mature industries have slow growth, making it difficult to create new business platforms within the business models of these organizations.
- A trend to look from growth primarily through acquisition to one of internal growth. One example is that a key indicator for retail is same store revenue, which is given more importance than the overall top line. This is a better indicator in many cases of a business' robustness.
- The majority of development involves technologies, products, and channels that are already "sunk costs" that over the long run will deliver an advantage.
- There is potential for "low hanging fruit" when exploring in depth the potential for cross-business developments. Like most new business processes there will be a diminishing % value over time so most of the larger opportunities can be identified and explored rather early in the process.

Before we conclude it is important to state the 4 major "do's and don't's". They are:

- Be patient. This effort will not produce results overnight. It will probably take as much time as traditional development processes because opportunities will still have to go through the same product and market development cycles. The reward comes from spending less on internal assets and skills.
- Don't fall into the trap of setting this up strictly within functional boundaries. E.g. Technology to technology counterparts. Some of the major opportunities may be from a technology capability in one business with a channel access or market access in another. Keep the groups involved broad initially.
- Fund the effort almost entirely outside of the individual businesses. Beginning stages need to be funded this way in order to arrive at a stage where mutual funding from the business units will take over.
- Have dedicated staff initially, if only to oversee the process in it's initial stages. A common "trap" that is repeated over and over by organizations is to expect large results from less than a full effort. There needs to be top management commitment in this business initiative, which can be achieved through internal memos, public statements, etc. In addition to funding, the second most important fact is for top management to send a message to all those involved that results are expected and that they will support the tools need to succeed. A rule of thumb would be to look at revenue per employee as it exists today, and then add a multiple to it for risk.

E.g. Look at a company with an average revenue of \$400,000 per employee. Multiply that by 3 to have a higher standard of contributions at a multiple of those for other employees. If there are 3 employees dedicated **100%** your expectation would be that contributions should be at least \$3.6 million per year at maturity. If the expectation is for \$20 million in new business, there should be 8-9 dedicated people committed to the effort, and this doesn't take into account that new business development needs to be "front-end" loaded with extra people who will take 18-24 months to reach that level.

We will close with a few summary comments about launching an effort to find new "gap opportunities" internally. The effort has the best potential for tangible new contributions to the corporation in organizations that are diversified across many businesses and markets. However, the company culture in these organizations will also make it much more difficult to succeed in setting up a process or system. The potential payouts are very lucrative but they are not likely to produce short term results in any meaningful volume. But, the investment

community usually has rewarded organizations favorably in this activity when a high profile launch has been made through media, etc.

Business Factoids

New drugs, new costs

Cancer poses a formidable target for the US pharmaceutical industry. More than 550,000 people died of the disease in the US in the last year, with 1.2 million new cases diagnosed. Drug companies must spend more time and more money to prove a drug works according to Jeff Trewhitt of the Pharmaceutical Research and Manufactures of America Association. "In 1980, the average time it took for a drug to move from clinical trials to market was 3 to 4 years". It is now 7+ years and the cost has skyrocketed to get through clinicals. From \$259 million in the mid-80's to today's yearly average of \$800 million.

A few factors for the increase are greater regulatory requirements from the FDA in addition to new pressure from managed health groups that account for 60+% of the market to approve new drugs for reimbursement. Collectively the pharmaceutical industry spent \$30.3 billion on drug R&D in 2001, up from \$2.7 billion in 1980. Another factor is also the learning curve as pharmaceutical companies move from their research in traditional chemistry to biotech proteins.

Driving speeds

There are certain speeds that best conserve fuel and they just require trading a few mph for economy. Driving at 50 mph gets 28% more miles per gallon than driving at 70 mph and driving at 55 mph gets 21% more.

Atkin's influence?

Americans consumed 76 billion pounds of red meat and poultry in the year 2000, up 21% from a decade earlier.

Dimples on golf balls

Ever wonder why there are dimples on golf balls? Dimples help the ball to go further by reducing drag. This is because the dimples cause air to cling more to the balls that provides a barrier for small wind obstacles such as eddies. The results are that a ball goes more than 350% farther than a smooth ball would go.

Futurist Perspectives

Sixty percent of the world's people will live in cities by 2030. Almost all population growth over the next three decades will take place in the cities of developing countries. By 2015, five cities will have reached "megacity" status, which means having 20 million or more residents each. They are: Tokyo, Japan; Bombay, India; Lagos, Nigeria; Dhaka, Bangladesh; and Sao Paulo, Brazil.

In the future, new materials for uniforms will give soldiers superhuman capabilities. MIT's new Institute for Nanotechnologies is indicative of this effort. They are developing fabrics that could change properties as needed, such as becoming rigid to serve as a cast if the wearer breaks a leg, or shoes that could store energy to allow soldiers to catapult themselves over 20 foot walls, this in addition to, many other enhancements that are determined to be past the idea stage and have feasibility. Futurists predict that within 25 years this work will not only re-invent the individual soldiers capabilities but also spill over to industry applications such as construction and farm workers and even into sports.

The National Research Council warns that studies predict more drastic changes in climate in shorter periods of time. These changes of up to 10° C within a single decade in certain areas will be likely. Severe floods and droughts will mark these abrupt changes and the trend will be to have these changes punctuate longer periods of more gradual change before the swing moves back just as dramatically. The reasons are complex but much of it is driven by forces placed on the world's climate from increases in emissions of greenhouse gases.

Future homes will be healthier due to an increase in development work to improve air and water quality. Much progress has been made in filtering out particulates, allergens, and contaminants and the progress is increasing

driven by consumers growing awareness and demand for a clean and healthy home without their intervention. Bacteria-killing devices will also be common to make food safer and future foods may be bioengineered to prevent diseases.

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