



## The PARAGON Perspective

### PARAGON DEVELOPMENT

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#### From the President

For those of you not familiar with us and may have received this as a ‘forward’ from the original recipient, The PARAGON Perspective is sponsored by PARAGON Development.

We want to use this newsletter 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 personal observations and even humorous items given to us by others.

All issues of *The Paragon Perspective* are archived on our website, so you may easily pass along past issues to colleagues.

This month’s editorial is titled “*Cap X Mistakes---Part 2*”. Last month we outlined the issues underlying Cap X and the causes. This month we will wrap up with our recommendations. If anyone would like to review the Part 1 perspective, it is on our website.

Jack T. Peregrim  
Pres., PARAGON Development  
Peregrim@ParagonDevelopment.com

#### Paragon Update

As the Beatles’ song goes—“Strange Days, Indeed”. Our ‘traditional 12-15 clients who have accounted for about 80% of our business over the past 10 years are all cutting back investment. Many are downsizing. Yet, we already have many new clients in the first 2 months of this year than we might find over an entire year. The nature of our projects has also changed from new products and technologies to strategic efforts such as M&A and Cap X which makes our perspective these past two months even more relevant.

#### Conferences

No new conferences have been sent to us to post for this coming month.

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## Technology Transfer/Capabilities

This section is open for clients, friends, and other newsletter recipients to spotlight technologies they have available for licensing, acquisition, development, or could be available to use. 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 section highlights non-client project technologies.

This newsletter has a distribution of over six thousand individuals who are in executive positions who either oversee or practice new business development, so the audience has the potential to generate legitimate interest. We do reserve the right to withhold posting any technology closely related to ones in which we have a client conflict.

## Technologies of Interest

**Locking Water Filter:** This is a new patented invention that offers protection against tampering with water filters in a wide variety of unsecured buildings (hospitals, schools, office buildings, etc).

More information can be found at [WWW.CoolerTechnologies.Com](http://WWW.CoolerTechnologies.Com)  
or by contacting Bob Lisenko at (203) 230-2873 or [RLisenko@CoolerTechnologies.Com](mailto:RLisenko@CoolerTechnologies.Com)

**Ultrasonic nozzles:** A client has created nozzles that are ultrasonic and have very high levels of effectiveness in atomizing liquids includes those with high viscosity. This capability has large potential in fuel combustion, coatings, spray drying, and many other applications.

If interested contact: Jack Peregrim at (203) 288-4154 or [Peregrim@ParagonDevelopment.Com](mailto:Peregrim@ParagonDevelopment.Com)

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## Quotes of the Month

“It takes as much energy to wish as it does to plan.” *Eleanor Roosevelt*

“It does not matter how slowly you go so long as you do not stop.” *Confucius*

“Good order is the foundation of all things.” *Edmund Burke*

“The reverse side also has a reverse side.” *Japanese proverb*

“Contradiction is not a sign of falsity, nor the lack of contradiction a sign of truth.” *Blaise Pascal*

“Genius may have its limitations, but stupidity is not thus handicapped.” *Elbert Hubbard*

“Diamonds are nothing more than chunks of coal that stuck to their jobs.” *Malcolm Forbes*

“When I am working on a problem, I never think about beauty but when I have finished, if the solution is not beautiful, I know it is wrong.” *R. Buckminster Fuller*

“If you don’t like something change it. If you can’t change it, change your attitude. Don’t complain.” *Maya Angelou*

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## Interesting Words

**Conterminous:** (Kuhn-TUHR-muh-nuhs) Adjective

1. Having a common boundary
2. Confined within a common boundary
3. Having the same scope in time or meaning

**Doyen:** (DOI-uhn) Noun

The senior member of a group or profession

**Cumshaw:** (KUM-shaw) Noun

A gift or a tip

**Filipendulous:** (fi-li-PEN-juh-luhs) Adjective

Hanging by a thread

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## “Cap X Mistakes---Part 2”

### Background:

Last week we focused on the background issues based on our experience with the many major capital projects we have worked on that have had a wide variety of specific objectives, such as:

- Building a new plant or significantly expanding an existing one.
- Investing R&D toward a large new invention platform.
- Significant changes in products to meet new market requirements (geographic, industry, etc.)
- Investing in meeting new environmental or other requirements.

We shared our experience in terms of the issues affecting success (or failure) and expanded on those issues with a discussion about the underlying circumstances that drove those issues to become factors. In this issue we will make recommendations on dealing with those issues in ways that either optimize value or that counter weaknesses that create failures.

Of course, it is impossible to make quantified prescriptions because there are many variables in each deal or investment. But, we will do our best to offer recommendations that have been effective in most cases.

### Recommendations:

As stated above, the following have been key factors highlighted last month that we have seen many times and with considerable impact:

- Upper management empire builders. We are starting with one of the more difficult problems because it is as political as business oriented. Certain key upper management managers receive extraordinary investment and thus tie up funds that could be available elsewhere. (This is also indicative of venture businesses where one gets funding at a level that starves the others or at the R&D level where one initiative gets support out of proportion to its potential and portfolio position.) We are minded of the old business adage: “Science defers to engineering which defers to business which defers to strategy which defers to politics”.

There are several possible recommendations and they are to a great extent about fighting ‘fire with fire’ which means securing political backing. The first is proposing and getting implementation for strategic criteria and combining that with a portfolio strategy. Within the criteria it would be reasonable to state where too much funding is not tied up for a long period. It is easy to show where that increases exposure and risk. Benchmarking of past situations with other similar commitments will support this.

In addition, it is important to get independent, objective support that is credible with whatever ultimate decision making group will be making final decisions. This cannot be emphasized enough even if it sounds Machiavellian. The main problem is not doing this early enough so your supporters are in place when things may move very quickly.

One other recommendation is to establish staged communication so final decision makers are building toward providing the investment you need and not surprised with a new request. We have seen many instances where managers keep things close to the vest about opportunities because they are being conservative and also enjoy the idea of surprising people with a breakthrough product or a key new acquisition. We know, however, that the ‘empire builder’ has been setting things up politically for longer than you realize.

- ‘Hammer and nail’ senior executives. The best approaches we have seen to overcome objections from a senior executive who is basing decisions to an excessive extent on past experience has many of the same considerations as the one above. The politics are also important although there are other unique approaches dependent on the experience the executive has that is his/her foundation. It is often difficult to change from a conservative foundation such as a standard business model to a more unorthodox one; or from a proven technology to a new one that is still in early stages (e.g. biopolymers and fuels); or from a known and well characterized large volume market to one that is in its early stages.

A key recommendation is to benchmark other, analogous organizations that have succeeded in doing the same. The single best approach, however, is to create a staging strategy that will allow minimal investment to prove that larger ones will work. If looking at acquisitions, recommend a very minor one to create the experience that will allow the resistant executive to generate new comfort, or stage capacity expansions in a more modest way than might be optimal. But, the real key in a staging strategy is to have go/no-go points on staging up with criteria for each then if a small acquisition delivers as promised, the next acquisition will be supported without a new ‘sales’ time to get support.

- Senior executives who have personal predilections toward being visionaries, or conservative, or left or right brained, or have any number of different Myers Briggs decision making preferences. As Socrates said: "Know thyself." Although in this case it is: knowing the senior executive and his/her comfort zone. Again, a staging strategy can help stretch that perspective when starting with a firm investment within that acceptable range of approval.

Another approach we have seen work at a very conservative coating company was to establish a portfolio for acquisitions that allowed a small percentage of high risk investments. By limiting the percentage of 'stretch' investments, the overall approach was conservative but did allow a few high risk acquisitions that are now proving themselves as economically attractive as well as a clearer strategic fit as they mature.
- The last of the strictly 'people' reasons for failure is the career juncture that a senior executive is in. There is a bit of a consistent theme here. Our recommendation is to take a staging approach beginning with a foundation within an individual's comfort zone and then expanding beyond that starting point. If an executive is a 'short timer' it is rare that they will make significant investments that drain resources that have rewards longer term while on their watch. (The exception is one where the individual is focused on legacy over time). The other side of that is someone who is new and wants to generate aggressive and significant results. A large risky investment in the first example would be unlikely to receive support while a minor investment is not going to excite and motivate the person in the second one. As irrational as it sounds, we have many, many examples where the main issue in Cap X approvals is selling to an individual instead of the 'overall organization'. It is important to understand this basic concept.
- Faulty market projections have numerous underlying reasons and we found the largest one is poor information. We have made it and they didn't come." Companies have invested significantly in product capacity and sales and the projections fell short of what was required to achieve business objectives. A constant in these projects were insights that serendipitously identified reasons that should have been known years ago. There were 2 main factors that caused the poor projections. The first was just underfunding the investigation. In one case the client spent over 4 million in R&D and then almost as much in engineering but spent only 3 weeks with internal resources to verify the market potential gathering anecdotal information from selected customers. That is common with companies upstream in the value chain while the opposite is true with downstream companies where extensive Voice of Customer work is done and they spend very little on optimizing product development and then engineering and operations.

A second key factor is failure to identify and then qualify the 'unknown-unknown' - those factors that will affect business potential but that are not obvious at early stages and therefore not part of information gathering or on a watch list. Expert Forums appropriately designed for scenario planning and using discovery based learning approaches can make a huge difference in overcoming this problem but many organizations will not invest in this until they know something needs to be understood. We can say with certainty that there are always unknowns and a concerted effort addressing them early can make a huge difference in long term returns. This also applies to acquisitions where market oriented or other unknowns may have a major effect on value that is only found out later when it could have been addressed during due diligence or even before making an offer.
- Market projections based on 2-3 factors only. Very rarely are new trends enough to carry a major investment. They need to be considered with all of the other traditional investment considerations. But we have found that significant investments are many times driven by hot trends that are given too much weight based on potential to time. This is particularly true when Cap X decisions need to have a positive short term NPV or are expected to have positive cash flows early. One example we were involved with had a negative NPV in year 4 and is not likely to ever return what was expected. We helped redirect the focus to applications where success will occur but will not be as large as the original targets.
- That customers and markets are rational. Masking an assumption like this is common and is too often wrong in such a dynamically changing world. Could anyone have predicted our economic situation over the past few years, or have recognized the changes in security, energy, and electronics just a decade ago? But we are many times making Cap X decisions on the basis that certain things that have been historically stable and predictable will continue to be the same in the future. This should tell us that an emphasis needs to be made on understanding the change dynamics that are occurring and using new approaches to do that. Simply polling customers does not work as well because they are also typically looking traditionally at their needs. Voice-of-Market<sup>®</sup>, scenario planning, and futurism all can be tools to manage our new environments that are changing more rapidly than ever.
- Engineering is a one-dimensional or 'paint by numbers' process. This is almost the 'flip side' of the last few bullets we have talked about but is the engineering piece where an organization that has made large Cap X investments becomes

too comfortable with past successes. If they want to build a new plant, they simply do what worked on the last 4 and do not invest in process breakthroughs or even in the 'unknown-unknowns' such as future environmental considerations. There also is an analogous connection in M&A where each deal should be looked at innovatively rather than following a cookie cutter approach.

- Going cheap. We have become very unbalanced in regard to budgeting Cap X projects by cutting upfront research and planning because short term money has an all time high value over long term returns. Thus, risk is increased longer term and, unfortunately, that risk is magnified considerably because the early considerations that are not made have an effect only after an extraordinary investment has become sunk cost. Our recommendation is quite simple – “be smart” - look at your investment over time and designate at least some exploratory funds upfront to at least find out what you don't know.

#### In summary:

In over 10 years this is probably the most difficult topic that we have been asked to provide a perspective on. And, it isn't because of a lack of experience but it is our experience that leads us to recognize that it is impossible to cover all aspects of Cap X issues in a large book, let alone in a few paragraphs in a newsletter. We hope we have stimulated thoughts and changes that will generate greater successes in your future.

#### PS:

We want to remind our readers that this section of the newsletter is open to anyone with a development topic or an approach they would like to share. Many of you - consultants, company managers, and academics - have very solid and profound contributions that could be presented in future newsletters. We ask that your submission be from 300 to 800 words. Let us know and we will gladly distribute your topic to the thousands of people on our distribution list. We agree that the copyright and ownership be kept by the contributor and that our only right is to reproduce it in conjunction with this newsletter.

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## Anecdotes

### **Christopher Columbus**

At a banquet given by the grand cardinal of Spain, Columbus was seated at the most honored place at tables and served with great deference and ceremony. A courtier, jealous of the foreigner's success, asked him rudely whether he thought that if he had not discovered the New World somebody else would have done so. Columbus did not reply but, taking an egg in his hand, invited the guest to make it stand on one end. All tried and failed, whereupon Columbus cracked the egg against the table in such a way as to flatten one end. Then he set it standing on the crushed part. The moral was plain to the company; once he had shown the way, anyone could follow it.

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## Alliances and Partnerships

The number of organizations we have worked with and collaborated with is too numerous to mention but we do want to highlight organizations we are comfortable endorsing to our body of readers. Each month we list an organization and those from the previous two months with a few words about their focus and how they can be contacted.

#### This Month:

#### **ktMINE**

David R. Jarczyk at [david.jarczyk@ktmine.com](mailto:david.jarczyk@ktmine.com) or (773) 401-8962, [www.ktmine.com](http://www.ktmine.com)

ktMINE has experience in many industries and is a fairly well know organization in intellectual property. It does a very good job at valuation of patents and other IP and offers a wide range of other advisory services. We do recommend them to any organization looking for IP valuation.

#### Last Month:

#### **starlight design**

Lisa Berko, [LBerko@Charter.net](mailto:LBerko@Charter.net) or (203) 270-9161, [www.starlightdesigngraphics.com](http://www.starlightdesigngraphics.com)

Starlight Design is a firm that does branding, logos, and graphics design. They provided the design for PARAGON which is on the top of this newsletter. We have been very pleased with the work and the fees were very reasonable. They went well beyond expectations with discussions with us on our focus and use of a logo and developed many options for our review and editing. High value and exceeding expectations describe our experience.



Two months ago:

**Firespec LTD**

John Aitken, [John@Firespec.Co.UK](mailto:John@Firespec.Co.UK) or (44) 7739 775509

Firespec LTD is an organization in Scotland who was engaged in a project with us and who we were very impressed with. They are focused on designing and meeting fire specs in buildings that includes inspections, consults, estimations, and all comprehensive services. For more information contact

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We hope you learned something from this and/or stimulated an action that leads to new opportunities for you and your organizations and that you will let others who might find this newsletter useful know about our publication. Previous issues of our newsletters can be found at <http://www.paragondevelopment.com/perspective.html>. If you would rather not receive the newsletter please respond to this email and include the word REMOVE in the subject line or in the message. To subscribe to our newsletter, please send an email to [contact@paragondevelopment.com](mailto:contact@paragondevelopment.com) and include the word SUBSCRIBE in the subject line or message. We will never sell your email address to others.

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Your friends at:

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