

## Are You Working Too Hard?

### A Case For Business Optimization

Working closely with investment advisors since 1994, we have come to a sobering conclusion – most advisors are working much harder than necessary to achieve their results. If you apply proven business management concepts, you will be able to work less and achieve the same results OR you can keep working as hard as you are and achieve better results. Better yet, we believe in achieving better results with less effort, by working smarter not harder.

You can apply this same concept every day in your business. This is called OPTIMIZATION. Optimization is defined as *the procedure or procedures used to make a system or design as effective or functional as possible*<sup>1</sup>. You help investors optimize their portfolios through Modern Portfolio Theory. We help investment advisors optimize their businesses by making changes in their way of conducting business that will result in growth and a higher level of efficiency. The purpose of this paper is to share a process that will help you do just that. First, we will provide you with a general overview of the system then describe it in greater detail so that you can apply it to your business.

#### Paragon Business Optimization Process

**REALIZE → MINIMIZE → ORGANIZE →  
SYSTEMATIZE → OPTIMIZE**

**REALIZE:** The first thing that you must do is identify the challenges and problems that are holding your business back from achieving its maximum potential. It is only after you have identified the problems and obstacles that you can try to formulate a plan to fix them.

**MINIMIZE:** Now that you have identified the problems that are holding you back, how do you reduce or get rid of them? The goal of the second step is to reduce or eliminate problems in order to focus on the growth of your business.

**ORGANIZE:** In this step, you begin the process of fine-tuning your business. This is where you determine the structure of your business and the team. What is your business model? How many people should there be on your team?

**SYSTEMATIZE:** The goal of this step is to create a system, or a means of accomplishing a task, and then documenting it so that everyone does it the right way. This promotes efficiency and consistency in your business, which leads to better results.

**OPTIMIZE:** All of these steps have led up to the ultimate goal: OPTIMIZATION. This is the process of creating value in the business for the clients and for you.

#### How is this program different from others?

Most programs give you a system of doing something – a sales process, client service initiative, marketing campaign, new technology, team structure, etc. If you look at our process, organization and systems are introduced after problems have been identified and then minimized. Why create systems for a problem-filled business? You'll just continue to have problems. Would a doctor prescribe treatment without first examining the patient to determine the problem? We all know that this could have disastrous results.

We assume that there are some issues that have to be addressed in the business before we start building teams and installing that great new software application. This is a process that must be followed in its order. Without the order, you cannot optimize the potential of the business.

#### Think of Your Business as a Portfolio

One of the best things to come from Modern Portfolio Theory is a greater appreciation for the relationship between RISK and RETURN. We can probably guess how you would respond to the investor who comes to you with the "I just want the highest returns possible" goal.

We hope you would point out that in order to achieve extraordinary returns, investors must take on extraordinary levels of risk. Even then, they are not guaranteed. You would also try to educate the investor about the history of the capital markets in an effort to establish reasonable expectations. You would also take the time to explain how a diversified (optimized) portfolio can actually increase expected return while decreasing expected portfolio risk.

It is not our job at Paragon Resources to manage your expectations (desired results), but it is our job to help you manage the risk you are taking to achieve those results. Risk, in the case of your business, is the *effort you have to expend to achieve those results*. It is also the *opportunity cost* (unrealized potential) of operating an efficient business.

*“Change happens not by trying to make yourself change, but by becoming aware of what’s not working.”*  
– Shakti Gawain

REALIZE is the critical first step of our process. The purpose of this step is to become aware of the challenges and problems that are holding your business back from achieving its maximum potential - your business performance barriers. In order to have any significant progress or improvement in a business, as in life, you have to be aware of what is standing in the way of your full potential. Not all performance barriers are readily apparent. Some hide under the surface, causing slow but long-lasting damage. Only when you have identified the performance barriers can you formulate a plan to overcome them, enabling you to make smarter and better decisions.

This is the time to be brutally honest and look inside yourself and your business to find out what is impeding your progress. When doing this, remember that you cannot control your environment; you can control only your own actions. You have to realize that blaming others for the problems in your business is futile; you are

ultimately responsible for the state that your business is in. Determining the nature of these problems can be a difficult task to accomplish, but it will produce the most tangible benefits of the Optimization Process. If this first step is not completed thoroughly, you will never be able to fully optimize your business.

One of the most important things to know when trying to ascertain the problems in your business is the difference between SYMPTOMS and ROOT CAUSES. A symptom describes WHAT is happening or not happening in your business. A root cause tells WHY those things are or are not happening. Think of symptoms as the pain that you are experiencing in your business and the root cause as the source of the pain. If you do not focus on the root causes the problems will keep coming back, sometimes with even more severe consequences. Most businesses have a tendency to treat the symptoms, which is why the problems never get solved.

### Is it Time for a Business Physical?

We wish that investment advisors would respect the health of their businesses as much as they respect the health of their bodies. Every day we talk to successful financial advisors whose businesses are seriously out of shape.

BUSINESS OBESITY is the predominant root cause affecting the success of this industry. So what is Business Obesity? Think of Sumo Wrestlers. They are big and powerful. They are skilled at using their size and power to overcome their opponents in a battle of sheer strength, but how well do you think they would do at running a race? Your business is more like a marathon than a wrestling match. If you want to be able to run that race, you and your business need to be fit and in great shape.

We see so many “Sumo Advisors” out there with far too many clients to effectively manage. If you have more than 200-300 clients, you and your business are carrying a fair amount of extra weight. In order to run faster, in order to get your business to grow faster, you are probably going to need to lose

some of that weight. If Sumo Advisors were required to take their businesses in for an annual physical, they might take better care of them! Think Quality versus Quantity. Business Optimization is about becoming a lean mean fighting machine instead of a Sumo Advisor.

### Business Model

Another issue we find while working with advisors is that the structure of the business might be based on outdated, invalid assumptions. You cannot continue to adhere to the assumptions and expectations that defined this industry 20 - 30 years ago. Over the years, the financial industry has been establishing increasingly more complex business models in an effort to offer more value to the client. Clients with greater assets and more complex needs have been brought in, resulting in more time that needs to be spent with these clients. This creates a problem if the structure of your business cannot meet these expectations. You have to think about how many clients you can effectively manage and the services you want to offer to them. You have to consider the size and capabilities of your team, the division of their roles and responsibilities, and the resources that you need to ensure exceptional client satisfaction with a profit. In order to optimize a business, you have to first define what business you are in and accept only business that fits your model. You have to work within the boundaries and capabilities of your business and accept the fact that you cannot be all things to all people.

### Margin

Lack of margin, or free time, could also be holding you back. You cannot optimize a business that is in severe overload or stretched beyond its capacity. If you do not have margin in a business, it is impossible to perform at a very high level. Margin is the key to accelerating the growth of your business. Margin gives you the time to do the things that need to be done, such as bringing in those higher revenue clients. If you want to grow a business, and exceed peoples' expectations, you have to make the time to focus on these issues.

### Who Me?

Is it possible that you could be doing things that are sabotaging your own progress? You better believe it! Our individual belief systems can keep us from making the best decisions. Where you are today is the sum total of the decisions you have made in the past. Is it possible that you have made inaccurate assumptions that led to poor decisions? Sometimes challenging your beliefs and remaining open to other viewpoints can have a great influence on the choices that you make.

Our own behaviors can also sabotage our progress or interfere with our team's ability to function well. For example, maybe you are someone who has a tendency to over-commit or underestimate how long it takes to complete a task. This creates problems for your team because they have the responsibility and added stress of actually trying to complete the work on time. Become aware of your destructive behaviors, and then ask your team to help you make the needed adjustments so that all of you can become more effective. It is crucial to involve your team in identifying any counterproductive behavior. Most of us are not aware of our blind spots. You cannot do anything about it if you are not aware of it!

As you can see, the REALIZE step is crucial in establishing the foundation of Optimization. It allows you to dissect your business and really see what the problems are, even if YOU are the biggest problem. Only when you have achieved this can you move on to the next logical phase, MINIMIZE.

***"There comes a time in the affairs of a man  
when he must take the bull by the tail  
and face the situation."  
– WC Fields***

The goal of the MINIMIZE phase is the reduction or elimination of obstacles and challenges in your business. The focus of this step is to create margin so your business can grow faster.

We want to make sure that you understand there is a lot more to minimizing than simply reassigning

smaller clients. The purpose of this step is to reduce or eliminate ALL of the serious barriers that are holding you back. Remember, performance barriers can explain why certain bad things are happening in your business as well as explain why certain good things are not happening in your business. You must address both by minimizing the negative effects of these barriers.

### Workload-Capacity Gap

The Workload-Capacity Gap (WCG) is one of many Performance Barriers that could be keeping your business from achieving its full potential. WCG is the difference between the amount of work it takes to run a World-Class Business and the capacity that is in place to do all of the work. Workload is what you DO for your clients and what you SHOULD be doing for your clients; it is the amount of time that it takes to do all of the work. Capacity is defined as the number of MAN-HOURS that are available to handle the workload - this is your and your team's time. We have found this gap to be crippling most businesses by causing stress on everyone in the team and limiting the potential revenues of the business. It is important to do everything possible to reduce workload before attempting to increase capacity. Increasing capacity means finding the right people to do the job, which in itself is tough these days. Also, there are additional difficulties when the number of people that an FC manages is steadily increasing. Most FCs enjoy bringing in assets and servicing clients, not managing a team. Create margin by reducing workload, and only after you have done your best at this should you add capacity.

The most obvious way to reduce workload and begin minimizing your business is to streamline the number of clients that you have. Now, we know everyone tells you this. But, if you personally are managing more than 200 or 300 clients, then why are you not listening? One of the best reasons to do this is that you simply do not need hundreds and hundreds of clients to be a million dollar producer. Remember the 80/20 rule? You need to focus 80 percent of your time and energy on the 20 percent of your work that is really important. Do not just

work smart, work smart on the right thing, and in your case, this means for the right clients. Chances are, that client with \$25,000 invested is not going to win the lottery. Even if he/she does, why do you think they would come to you if you have not serviced them as a million dollar client for the last 10 years? Think of your client base as a portfolio. Do you have 20 percent of your clients bringing in 80 percent of your revenues? If so, it is time to rebalance that portfolio. You need to slow down your growth rate in terms of the number of newer clients, and really start thinking in terms of pulling in bigger clients. The Paragon Optimization Process is based on the principle that LESS IS MORE.

### Eliminate, Delegate, and Innovate

There are three minimization strategies that we suggest you use in your efforts to reduce your workload - ELIMINATE, DELEGATE, and INNOVATE. The first strategy is to eliminate the work, or to simply stop doing it altogether. An example of this would be to set an account minimum (remember to think big here) and reduce the number of client relationships that do not fit your ideal client profile. You should also eliminate certain types of complex, time intensive business that you just dabble in such as trading clients, the 401K market, institutions, etc. Eliminating clients that do not fit into your business model will make you more disciplined and increase the profitability of your business. This also usually helps in minimizing the special work you do for them such as extensive performance reports, unnecessary client service requests, administrative paperwork, etc.

The second minimization strategy is to delegate the work or clients to someone else. A good portion of our time is spent consulting with teams on identifying the right job for each person on the team. Each person should be a specialist at what they do instead of a jack-of-all-trades. In this way, you can delegate the work to the right people and feel confident they will succeed. The delegate strategy is also about giving those low profit clients to a Junior Partner or another advisor in your office

so that they can spend their time with that client instead of you.

Many financial advisors have difficulty giving away clients due to certain individual belief systems we call "small client dilemmas." The first is the ETHICAL dilemma, which is the belief that the client has been with you for years and that you could not possibly give them away now. The FINANCIAL dilemma involves the viewpoint that you could miss out on a future financial opportunity or referral if you give that particular client away. The MINI-ME dilemma occurs when, for whatever reason, you believe that there is truly no one else that can take care of your client. The implied assumptions connected with these belief systems are that you are actually hurting the client in some way or that no one can do what you do. The truth of the matter is that you are not taking anything away from the client. The important thing is that you do what is best for the client.

Finally, the third way to reduce workload is by innovating or finding a better, more efficient way to do something. This strategy is usually applied to all of the work that you are currently doing for clients and all of the work that you should be doing for your clients. Using technology, like a networked contact management system to coordinate all tasks of the team, is an example of innovation. Just remember that there usually is a steep learning or implementation curve before you actually reap any benefits from innovation. Make innovation a team effort by having brainstorming sessions on how to make things run more smoothly in your business.

The main focus of the MINIMIZE phase is to create margin and to clear the way for future growth in your business. It is important to reduce or eliminate the obstacles that are holding you back.

*If you organize, systematize, and/or build a team around a dysfunctional business, you still have a dysfunctional business.*

In the third step of the Paragon Optimization Process, ORGANIZE, the goal is to look at every

detail of your business. You know the saying...the Devil is in the details? At this point, it is time to start taking more advanced steps such as determining the structure of the business and team.

During this step you may become acutely aware of what it really takes to run your business. Working with hundreds of successful advisors over the years, we have found that this step is an eye opener for most. So many high octane advisors do not realize that they are wearing too many hats when it comes to running their businesses. They are taking on all the tasks because they either are trying to do too much or do not have a team to help or do not feel confident delegating the work to the people they do have. Many businesses are running on fumes because of poor infrastructure. If you do not know exactly what it takes to run the business, then you cannot determine things such as workload capacity, allocation of resources, or roles and responsibilities of the team members. When you have accurate information about the structure and order of the organization, then you are in a better position to make better decisions. All of this enables you and the team to provide a higher level of service to your clients.

### **So, how do you determine the proper structure for your business?**

1. Select your BUSINESS MODEL - what business are you in? Stop being all things to all people; commit to one business model as soon as possible.

2. Develop a FUNCTIONAL ORGANIZATION CHART. This is a high level overview of your business, breaking each part of your business into FUNCTIONS. It tells you WHAT work has to be done. Right now we are not concerned about WHO. If you think this sounds daunting, you're right. This is the awareness exercise where you will realize that one person cannot do everything and do it well. To help you get started, we begin at a high level. You can break down any business into 3 core parts - FIND, GRIND, and MIND. You have to find the business, grind out the work, and mind the relationships and team. To take this step further, FINDING is about Marketing and Sales,



GRINDING includes Investment Management and Portfolio Analysis, and MINDING includes Client Service and so on. As you work on your own chart, you will gradually be able to identify the gaps in coverage, or areas where things are not getting done. You will also probably see that one person is covering too many areas - that person is probably YOU.

3. DEFINE the work that takes place in each function. Now, you may feel that this is going to be really painful, but we promise you it will be the most rewarding. The best way to understand something is to commit it to writing. Only you and your team can define each task that occurs or should occur in each function of YOUR business. You may realize that you do more for clients than you thought or that your team is actually stretched too thin and cannot take on any more clients until things are reorganized.

4. QUANTIFY the work that takes place in each function. Most advisors have a very incomplete understanding of how much time it actually takes to run their businesses at its optimal level. Without this understanding you can have a chronic tendency to over-commit. This makes you highly inefficient. Have everyone on your team do a time study on the important tasks of each function for a couple of weeks. We are looking for estimates here, not complete, accurate times.

5. Determine your REQUIRED RESOURCES for your Business. This step takes all of your work so far and helps bring clarity to what you need to run your business. Once you know what you do and how long it takes for you to do it, you can determine what resources you need to define the structure of your team and business. Resources for any business include: man hours or people, technology, skills, knowledge, external support, etc. When you have this information, you can then determine how many people it currently takes to run your business and what it will take to ramp up revenues. This is where you can define your optimal client load based on the available resources of your business. Remember the MINIMIZE step, you do not

necessarily need to add to the total number of clients to ramp up revenues, you need to have the RIGHT clients for your business model. We feel, at a minimum, your team needs to have at least one person performing each of the FIND, GRIND, and MIND areas of your business. During this step, you need to identify the right people for each job. This may mean redefining a team member's current job or adding a new person to the team. We use the Managing For Success® Assessments<sup>2</sup> to identify who should be doing what on a team.

6. Write accurate JOB DESCRIPTIONS for your team. Many job descriptions simply state the roles and responsibilities and nothing else. A good description is very detailed in terms of what is expected of that person and the actual tasks and activities that are involved. For people to perform at a high level, they need to completely understand their responsibilities.

The best way to form a new team or restructure a current one, is to organize it around function rather than specialty or expertise. You need to organize the team by the functions or duties that they will perform rather than putting them together because of personalities or skills that they possess. When you do this, you can achieve a higher level of efficiency and synergy. Many teams are made up of people who are good at the same types of things. To have synergy, you need the members of the team to be good at different things so that they can balance each other's weaknesses.

***"The System is the Solution"***  
***– IBM***

The fourth step of the business optimization process is to SYSTEMATIZE the business. The goal of this step is to create standard ways of performing all the important activities in your business to increase the efficiency of your team. You can only systematize after you have DEFINED and QUANTIFIED the work in your business. A system is a series of steps or activities that work together to produce a PREDICTABLE and CONSISTENT result. So, what do you need to systematize in your business?

EVERYTHING. The ultimate goal of this stage is to have an OPERATIONS MANUAL where everything is broken down into all the tasks and activities that make up the functions of your business and then are DOCUMENTED. Documentation commits you and your team to the business.

One benefit of systematizing your business is that you increase productivity because people become more efficient when you give them systems. A second benefit is that systems facilitate the training of new personnel. If you have systems in place, it will take considerably less time to get a new team member acclimated to the business and their position. Plus, providing them a training manual gives them the information they need to know to perform their job well, leading to their success. A third benefit to having systems in place is that not only your service, but also your advice gets better. Systems are what great service firms are made of. Do you think Disney, Lexus, or Nordstrom could deliver the great customer experience without systems? No. Systems are what enable their people to deliver the great, personalized service for which they are recognized.

When creating systems you must include every team member in the process. Not everyone is skilled in or enjoys developing systems. When you involve everyone you get better, more accurate systems. There are five types of systems that you should create for your business: CHECKLIST, WORKFLOW, INFORMATION, HARD systems, and SOFT systems.

**CHECKLIST:** This is the easiest system, and consists of simply putting each detail of your process, step by step, in writing. A checklist works best when only one person is involved in doing the work.

**WORKFLOW:** This system is the most complex and is best used when you have processes where there are two or three people involved. This is the FLOW of WORK that makes up any process that involves several people on your team. They are the toughest to design, but your team will benefit the most when you design these systems. An example of a

workflow system would be your SALES PROCESS. You have an appointment to meet with the prospect, and the first step of the system might be to have someone call to confirm the appointment. Another step might be to prepare the materials or presentation for the meeting. Then, you actually have the meeting, and there is a sub-system within this step that includes a documented checklist or agenda for the meeting. After the meeting, someone is then given all of the paperwork or files to enter the data and then prepares a proposal. The proposal comes back to you to review and ultimately is presented to the client in a second meeting. This is an example of how work flows from one person to another in a practice.

**INFORMATION:** You need to have a system in place to manage the tremendous amount of INFORMATION that flows through your business. There are three different types of information systems. There is INTERNAL information about your business that you should be tracking such as your revenues and how much revenue each client generates. Another kind of information is EXTERNAL information that includes areas such as information about the economy and the markets. CLIENT information consists of client files and family data that should ideally be stored in a contact management system in order to be managed in an organized and effective manner.

**HARD:** These systems are part of the client experience. This is everything that is TANGIBLE to the client during their interaction with you. This includes everything from your presentation materials or how your office looks to the china that you use when you serve your clients.

**SOFT:** These systems are the INTANGIBLE aspects of the client experience. Elements of the soft systems cannot be seen or touched by the clients. These can include what the receptionist says when the clients call your office, the way the client feels when they speak with your team, agendas for client meetings, etc.

The best way to identify systems is to start with the functional org chart. Write down each function and think about what happens in it. The goal is to document everything that you do and organize it by functions. It is not always an easy process, so first prioritize the systems that will have the most impact in your team. Be sure you and your team are committed to taking the time to do this step. The reward will be well worth it.

***WORK LESS  
MAKE MORE MONEY  
ENJOY LIFE MORE***

OPTIMIZE is the final, decisive step of the Paragon Optimization Process. If you have been diligent about doing the work in the first four steps, your business is now in a position to grow faster with less effort. Optimizing is about creating real and sustainable value in the business for you and for your clients.

In the book, *The Discipline of Market Leaders*<sup>3</sup>, a study was conducted on leading companies to determine how they became world-class leaders of their industries. The management teams were studied, and the customers were interviewed to find out what these companies were doing differently than their competitors. It was determined that each of these companies, in their own way, created something called a VALUE DISCIPLINE within the company. This was the strategy that the firm would use to deliver exceptional value to their customers to dominate their markets. There were three strategies, or value disciplines, that these industry leaders embodied.

**OPERATIONAL EXCELLENCE:** These were the companies who were able to create such efficient operations and logistics that were so flawless that they basically became the low cost producer in their industry. No one could compete with them at that level. (i.e. Dell, McDonald's)

**TECHNICAL SUPERIORITY:** These were the companies that were extremely committed to research development and put considerable funds

back into R and D to develop products. As a result, they were able to create products and services that were usually two to three years ahead of their competitors which made it very difficult for the competition to keep up with them. (i.e. Microsoft, pharmaceutical companies)

**CUSTOMER INTIMACY:** These were companies that were defined as having a deep knowledge of their customers. You get to know them much better than your competitors do and possibly even better than they know themselves. Often, you learn certain things that you never would have learned unless you took the time to get to know the person beyond the business relationship. This uncovers **BREAKTHROUGH INSIGHTS**. These are things you learn about your clients such as problems or challenges that they might have that you can directly or indirectly solve for them.

In a relationship business you need to focus on the customer intimacy value discipline to set you apart from the competition. You still have to be good at the other two value disciplines, but you need to lead with customer intimacy. This will make your clients indebted and loyal to you.

So how do you create value for your clients in a relationship business? There are three building blocks of value: **KNOWLEDGE**, **RELATIONSHIPS**, and **TIME**. These become even more powerful when you see the results of combining these assets. When knowledge and relationships are combined, the result is getting to know someone better. This creates trust and gives you **INSIGHT** into the client that might allow you to solve problems or address challenges for them. When relationships and time are combined, you spend more quality time with your client, and that builds trust and **LOYALTY**. Finally, when you spend more time acquiring knowledge, you gain **WISDOM**. This makes you more marketable and valuable to your clients. Essentially, having **MARGIN** is the key here. When you have the extra time to spend with the clients and really get to know them, it builds trust and garners referrals for your business.



Optimize is also about creating value for your business. You need to start thinking of your clients as INCOME PRODUCING ASSETS that will generate a revenue stream for you for the next five to ten years. You will have a much better chance of optimizing your business if you focus on PROFITABILITY rather than productivity. Profitability is the amount of revenue generated by the client versus the amount of time and energy it takes to manage the client relationship. You have to look at how much revenue is coming in the door and how much time it is really taking you to service that relationship. You will probably find that you are going to spend a lot of time managing that relationship in the first couple of years, but somewhere along the line, the amount of time that you put into it seems to level out. What that tells us is that as the relationship continues, it becomes increasingly profitable. This is where the LEVERAGE comes in. Most of you would agree that it does not take significantly more time and energy to manage a \$2M client than it does a \$500M. So, having larger but fewer clients is the best way to create leverage in your business by maximizing your time. This is an excellent way to optimize your business because you are achieving better returns without significantly increasing the effort in your business.

Taking this concept one step further, you also need to think of your clients in terms of their LIFETIME VALUE rather than the fees that they pay each year. When you look at the cumulative amount that your larger clients will pay you over time, it may change your process of acquiring similar clients. If you keep in mind the revenue that will eventually be generated by this client, you might be willing to invest more time and money into obtaining their business. What would you be willing to invest in acquiring a client if you knew they were going to pay you \$250M in fees over the next 10 years? You may have never thought about your business this way, but you should.

You are now familiar with the five steps of the Paragon Business Optimization Process: REALIZE, MINIMIZE, ORGANIZE, SYSTEMATIZE, and

OPTIMIZE. Optimization is the process of creating real and sustainable value in your business and achieving its full potential; it is the pinnacle of the Paragon Optimization Process.

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Paragon Resources, Inc., founded in 1994 by **Steve Saenz**, is a consulting firm that specializes in helping investment professionals build and manage fee-based businesses. Paragon develops results-driven solutions that help investment professionals overcome the challenges they face and maximize the opportunities that exist in their businesses.

Since 1984, Steve has helped thousands of investment advisors throughout the United States and Canada build and manage their fee-based practices. As a former financial consultant and regional manager for Merrill Lynch and a managing director for a leading money management firm, Steve brings years of in-the-trenches experience to his work as a highly-respected consultant.

<sup>1</sup> American Heritage Dictionary

<sup>2</sup> Managing For Success® Assessments are available through Paragon Resources. It is a registered trademark of Target Training International, Ltd.

<sup>3</sup> The Discipline of Market Leaders by Michael Treacy, Fred Wiersema

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