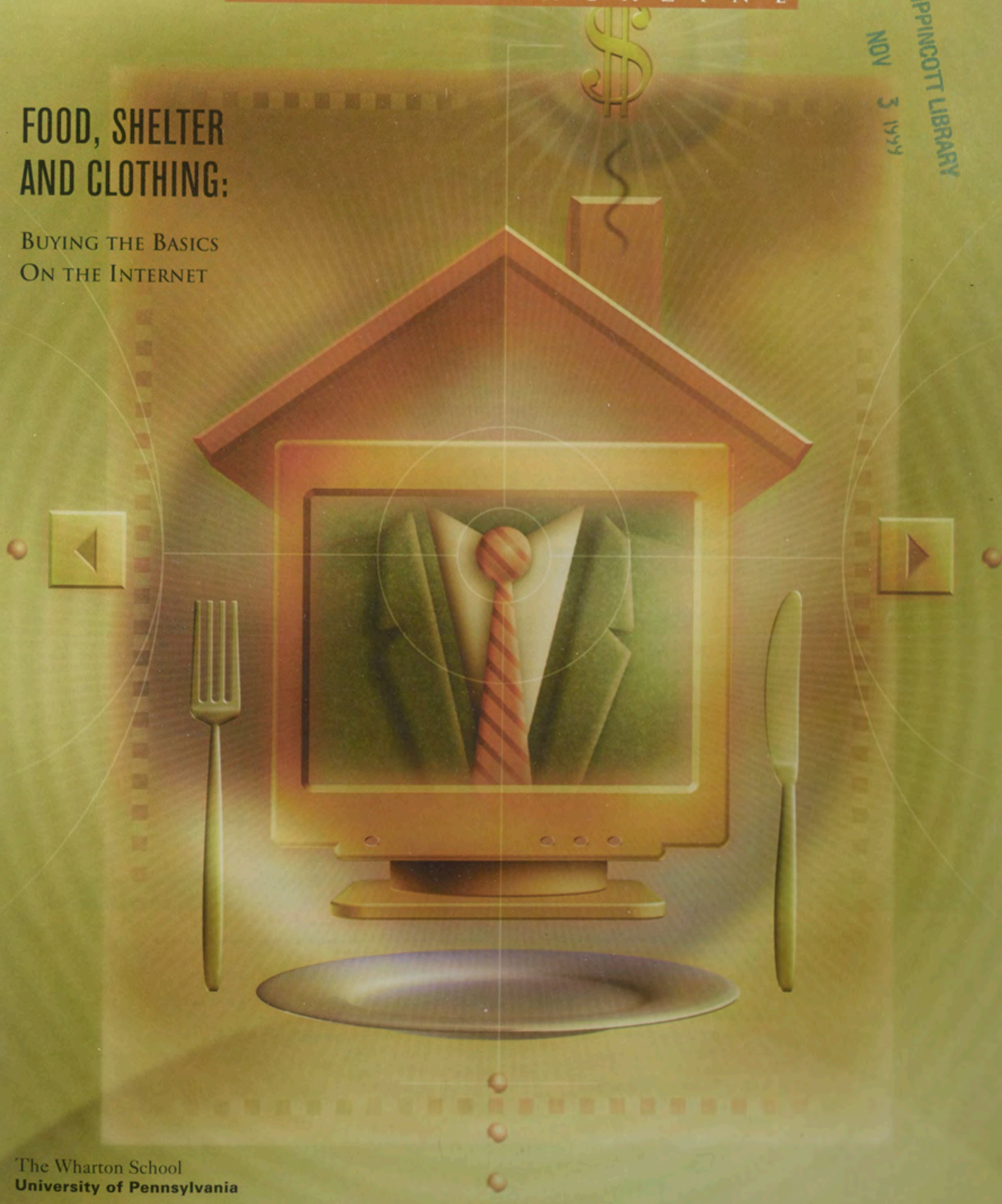
Wharton

ALUMNI MAGAZINE

Fall 1999

FOOD, SHELTER AND CLOTHING:

BUYING THE BASICS ON THE INTERNET



The Wharton School
University of Pennsylvania

J O I N T H E

GLOBAL ALUMNI NETWORK

IN

PHILADELPHIA

Wharton Alumni Reunion Weekend
Friday, May 19; Saturday, May 20; Sunday, May 21, 2000

- Alumni Receptions
- Executive Education Programs
- "State of the School" Presentation
- Alumni/Faculty Exchanges
- Picnic Lunch
- MBA Reunion Class Dinners - WG '95, '90, '85, '80, '75, '70, '65, '60, '55 and '50
- Farewell Brunches

If you have not received any Reunion information, please contact the Alumni Affairs office at 215-898-8478, or email us at alumni.affairs@wharton.upenn.edu. Don't forget to check out our Reunion web site at http://www.wharton.upenn.edu/alumni for schedules, hotels and attendee listings.

IN

SAN FRANCISCO 2000

March 30 - April 1, 2000
1st North American Regional Alumni Meeting
"Entering the Virtual Millennium"

For further information, please contact:
James K. Sokol, WG '95
Director, West Coast Regional Office
Tel: 415-955-2670
Fax: 415-955-2672
email: sokolj@wharton.upenn.edu

IN

PARIS

April 27-28, 2000
5th European Regional Alumni Meeting

For further information, please contact:
Marguerite A. Harrington, WG '76
Director, Alumni Affairs
Tel: 215-898-8478
Fax: 215-898-2695
email: alumni.affairs@wharton.upenn.edu

IN

MANILA

June 9-10, 2000
7th Asian Regional Alumni Meeting

For further information, please contact:
Jeffrey A. Sheehan
Associate Dean for International Relations
Tel: 215-898-1240
Fax: 215-898-1001
Email: jsheehan@wharton.upenn.edu

IN

BUENOS AIRES

June 22-23, 2000
1st Latin American Regional Alumni Meeting

For further information, please contact:
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Wharton
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Fall 1999

Features

Departments

COVER ARTICLE

Few would argue that the selling power of the Internet is unstoppable. But what about using the Internet to procure the basics of life?

Illustration by Tom White

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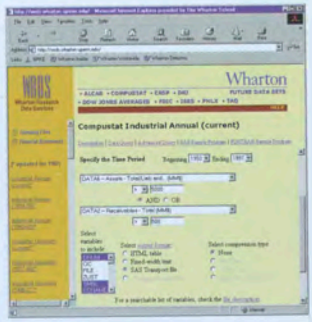
A World of Data At Your Fingertips

As recently as five years ago, finance students at Wharton who were asked to analyze the performance of a particular company over a 40-year period would have needed weeks just to collect the basic research data.

Since then, the creation of a Web-based interface called the Wharton Research Data System (WRDS) allows users to glean this kind of information in a matter of minutes. Using a simple point-and-click system, faculty and students have direct access to 12 gigabytes of data, from stock quotes to company cash flow to worldwide investment patterns.

So successful has the WRDS initiative been, says Gerry McCartney, Wharton's chief information officer and head of Wharton Computing and Information Technology (WCIT), that 24 business schools, including Stanford, University of Chicago, Northwestern and Columbia, have signed up in the last 18 months to license the program from Wharton. "They are in effect buying access to a corner of the rich research environment at the Wharton school," McCartney says. He expects another 15 to 18 schools to license the system over the next year.

WRDS, notes Paul Ratnaraj, the system's chief architect, plugs into vast repositories of data, some owned by the school but many of them licensed from outside vendors. The sets most widely used include price and return data (such as CRSP), corporate data (such as Compustat), and banking and insurance data (such as Best and FDIC). "We have successfully leveraged intranet technology so that anyone with a browser has instant access to our research data," McCartney says.



WRDS includes stock prices and returns for more than 6,500 companies, S&P data on 7,000 publicly-held companies and macroeconomic data back to the 1920s.

For many faculty, it's a dream come true. "WRDS frees us from research issues related to accessing data and matching different databases," says Robert W. Holthausen, Nomura Securities Co. Professor of Accounting and Finance. "It takes the chore out of analysis and places added emphasis directly on critical thinking, which is what students should be doing. It is transforming how courses are taught."

Because Wharton's networked classroom teaching stations access the Internet through the School's highly respected SPIKE student intranet, WRDS allows faculty to use data sets "live" in the classroom.

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M&T Undergrads Offer A-Z Guide to Investing on the Internet

When Adam Lietzes' uncle told his friend, David Bell, chairman of investment company Crown Advisors, about Adam's interest in investing and the Internet, Bell's response was, "I don't think a teenager can help us." But Bell invited Leitzes in for the day anyway.

"We hit it off," says Leitzes, W'02. "I ended up becoming his Internet consultant."

Since that time four years ago, Leitzes has completed several projects for Crown, from building web sites to attending analyst meetings to offering investment advice.

"I have basically joined the dialogue. I sit in on the meetings where Internet companies are presenting their programs to Crown and I just give them another angle," he says. "I've been looking into what the Internet can do for longer than they have."

Leitzes also spent time working at the brokerage house Herzog Heine Geduld during the summer of 1998. He realized, after a few weeks of helping the pros tap the Internet's power, "that everyone could benefit from the same information."

PHOTOGRAPH: JERRY MILLEVOI

Leitzes (left) and Solan

During his first day at Wharton, where Leitzes is in the Jerome Fisher Program in Management and Technology, he met a

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For Class of WG'99, It's a Global, High-tech and Entrepreneurial Job Market

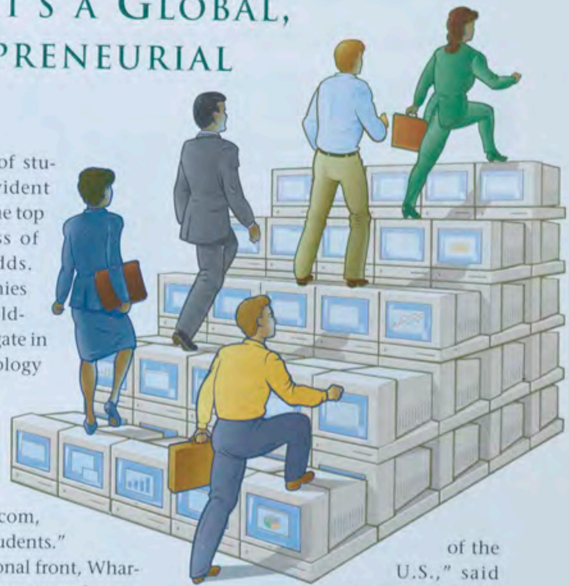

ILLUSTRATION: MIKE ROGALSKI

A strong economy continues to draw MBA graduates of the class of 1999 into consulting and investment banking, at the same time that employment increases in technology and venture capital reflect the rising popularity of high-growth industries.

The class of 1999 also saw more graduates than ever taking the entrepreneurial plunge: a record 22 students chose to start their own businesses upon graduation.

"It is an exciting time to be graduating from Wharton," says Robert F. Bonner, director of MBA Career Management. "Career opportunities have increased as the result of a greater diversity of opportunities available on-campus as well as through strong partnerships with student and alumni clubs."

While consulting, investment banking and high-tech industries attracted the largest number of students from the classes of 1999 and 2000, the number of graduates who opted for positions in venture capital more than doubled since 1998, and the number of students entering the high-tech industry rose to more than 12 percent of the class (compared to 5.9 percent last year).

"The increasing interest in technology has not only affected the high-tech sector, but every other industry as well," says Bonner, pointing to the number of students accepting traditional positions with high-tech responsibility:

- 35 percent of students in corporate/strategic planning
- 34 percent of the students in marketing
- 32 percent of the students in venture capital.

"The diversity of student choices is evident when you look at the top hirers of the class of 1999," Bonner adds. "There are companies like McKinsey, Goldman Sachs and Colgate in addition to technology companies like Siebel Systems, which hired 14 students, and dot.com companies like Priceline.com, which hired four students."

On the international front, Wharton MBAs continue to welcome global opportunities. Seventy-two percent of the non-U.S. students who came to Wharton accepted positions outside of their home country. Almost 62 percent of the non-U.S. students from the class of 1999 accepted positions in the U.S., a trend which has increased over the last four years. The number of U.S. students accepting positions outside of the U.S. rose slightly. "In the past we have always measured how 'global' MBAs career choices were by how many students went to work outside of the U.S.," said Bonner. "What is happening in the global market is occurring right here in our own backyard as more and more non-U.S. students choose international careers here in the U.S."

Graduates accepted positions in 28 U.S. states, Puerto Rico, and 39 countries encompassing 50 industries and 32 functional areas.

For more detailed information on job placement figures for graduates of the class of WG'99 and summer interns from WG'2000, go to http://mbacareers.wharton.upenn.edu

Huntsman Named Chair of Board of Overseers

Jon M. Huntsman, W'59, chairman and CEO of Huntsman Corp., has been named as the new chair of Wharton's Board of Overseers.

He succeeds classmate Saul P. Steinberg, W'59, who had held that position since 1987. Steinberg is now chairman emeritus and continues as an overseer.

Huntsman, an overseer since 1985, was confirmed as chair by University Trustees earlier this summer.

MBA Admissions: Record Outreach, Record Applicants

By Bob Alig, WG'87, Director of MBA Admissions and Financial Aid

The date is December 11, 1998. I am in Kimpo Airport in Seoul while seven of my colleagues are communicating the message of the Wharton school and recruiting MBA students in six different countries on four continents. In our absence, a skeleton crew back in Philadelphia juggles on-campus interviews and runs the office. This year alone, our admissions officers' itineraries included first-ever recruitment trips to Venezuela, Saudi Arabia, Egypt and Russia, as well as expanded outreach to Mainland China and India.

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In all, we expanded our outreach with receptions and staff-member interviews in 25 countries and 15 domestic cities. These efforts have paid off handsomely: The Wharton MBA Class of 2001 that arrived on campus in August hailed from nearly 60 countries around the globe and represents the most selective admissions season in Wharton's history. We received more than 8,400 applications, itself a record, and admitted just over 12 percent of the applicants, cutting the percentage of admitted students in half over the past six years. The average age of our entering class is 28, with an average GMAT of 692 — an increase of more than 40 points over the past five years.

This growth in the size, quality and diversity of our applicant pool is a direct result of the support of the most dedicated alumni in the world. Your commitment has enabled the Wharton School to set the standard, among all graduate business schools, for the scope of our outreach. In every country and city, we depend on alumni to help us plan receptions and schedule evaluative interviews. This year, for example, one pioneering alumnus proposed and helped coordinate our first recruitment efforts in the Middle East. Meanwhile, an innovative group of dedicated Seoul alumni sponsored the first reception for admitted students in Korea this past April. As a result, the highest percentage of Korean students in recent memory accepted our offers of admission.

Most applicants we interview report that a primary allure of Wharton's MBA program is the dynamism of Wharton alumni. Underscoring this point, we are happy to report that our alumni interviewing program has expanded even faster than our applicant pool. Five years ago, 30 alumni helped launch this program by conducting 300 interviews. Last year, in a remarkable increase, more than 600 alumni conducted nearly 2,500 interviews on our behalf.

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Nine New Faculty Join Wharton

AMIT

ZIEDONIS

PHOTOGRAPH: JERRY MILLEVOI

The Wharton faculty this fall welcomes two new full professors, one associate professor and six assistant professors. They include:

- **Management:** Raphael Amit, Robert B. Goergen Professor for Entrepreneurial Management and academic director of entrepreneurial programs (PhD, Kellogg Graduate School of Management, Northwestern, formerly professor at the University of British Columbia, School of Commerce and Business Administration); Rosemarie Ham Ziedonis, assistant professor (PhD, Berkeley); Mark Zbaracki, assistant professor (PhD, Stanford, formerly assistant professor of behavioral science at the Graduate School of Business, University of Chicago)
- **Accounting:** Richard A. Lambert, professor (PhD, Stanford, formerly professor of accounting at Stanford Business School)
- **Real Estate:** Christopher Mayer, associate professor (PhD, MIT, formerly associate professor, Columbia University)
- **Finance:** Leonid Kogan, assistant professor (ABD, MIT); Andrew Metrick, assistant professor (PhD, Harvard, formerly assistant professor of economics at Harvard)
- **Operations and Information Management:** Ravi Aron, assistant professor (PhD, NYU)
- **Legal Studies:** Dan Hunter, assistant professor (PhD, Cambridge, formerly at University of Melborne).

For MBA Students and Their Host Companies, The Benefits Are Mutual

Helping a small, suburban Philadelphia museum to better market itself and testing the viability of a new class of investments for Fidelity Investments are among the many hands-on projects MBA students tackle in Wharton's Field Application Project (FAP), a required first-year course.

The Field Application Project is an eight-week program created to give second-semester MBA students real-world experience and the chance to apply what they have learned in the classroom. Students are required to spend 200-300 hours conducting intensive research and analysis for their host organizations. They then present their findings orally and in writing, a format that tends to encourage a lively interchange of ideas between the students and managers.

The program serves a variety of organizations, including major multinational companies, start-up businesses and non-profit organizations. Host companies work with faculty and student teams to design projects that are both challenging to students and useful to the company. A key goal is for students to integrate ideas from different business disciplines such as finance, accounting, operations, marketing, management and strategy.

A new, more intensive component of the program includes "Tiger Teams," which match up a small number of select students and faculty experts to work on complex, multi-unit strategic issues facing host organizations.

The program welcomes new projects from prospective hosts. For more information, contact:

Field Application Project
The Wharton School
3620 Locust Walk, Suite 2000
University of Pennsylvania
Philadelphia, PA 19104
215.573.8394 phone, 215.898.0401 fax
http://www-management.wharton.upenn.edu/~fap/fap

Alumni Magazine Announces Change in Leadership

Robbie Shell, editor of the *Wharton Alumni Magazine*, has stepped down after leading the magazine for 10 years.

"Robbie has raised the standard for a publication that has the important role of communicating with alumni about each other, reporting on current business issues, and keeping all of our constituents up to date on the progress of the school," says Robert E. Mittelstaedt, vice dean, Executive Education, and interim associate dean, Communications and Business Development. "She has shown us how to do that with top-notch content about our alumni and faculty that is of general interest to all business professionals, whether they have a Wharton connection or not."

Shell will remain with Wharton as a writer and editor for Knowledge@Wharton, the school's new online publication that offers business research and analysis, and will continue to contribute to the magazine.

The magazine's new editor, Nancy Moffitt, brings a combination of business journalism and higher education experience to the job. In the late 1980s and early 1990s, she wrote about the banking, retail and financial services industries for several newspapers, including The (Cleveland) *Plain Dealer*, Ohio's largest newspaper.

More recently, Moffitt managed all aspects of communications for Penn State University's three Philadelphia area campuses. Her work included developing, managing and editing a regional alumni magazine, as well as overseeing all national and regional media relations.

Editor's Note:

It is with feelings of both relief and regret that I have decided to step down as editor of the *Wharton Alumni Magazine*, effective this issue. After 10 years on the job I began to realize that it was time for a change.

Starting this fall, I will be working part-time — those oft-cited "life balance" issues played a role in my decision — primarily for the school's new online publication, Knowledge@Wharton. I will also be contributing articles to the magazine under the guidance of its new editor, Nancy Moffitt.

During my decade at Wharton, I published 42 issues. Each one was an opportunity for me, acting as a reporter as well as an editor, to learn more about business and management issues, but also to meet you, the school's alumni. I have greatly enjoyed the interaction. Your insights, experiences and above all, willingness to accept new challenges are both noteworthy and inspiring. With such a bright universe to cover, I feel that I grew both professionally and personally on the job. My thanks for those many interviews, and for all your support.

I hope that through this magazine, you continue to keep in touch with each other and with Wharton.

Robbie Shell

Getting Down to Business At Regional Alumni Meetings

The Wharton Asian Forum 1999, held last summer in Seoul in conjunction with the 6th Asian Regional Alumni Meeting, addressed the theme, "Survival, Recovery and Prosperity."

Guest speakers at the June 4-6 event included Nyum Jin, Minister of Planning and Budget, Republic of Korea; Tony Tan, Deputy Prime Minister and Minister of Defense, Republic of Singapore; and Jon M. Huntsman, W'59, chairman and CEO of Huntsman Corp.

Jwa-Jeen Choi, WG'80, president, STC Corp. and head of the Wharton Club of Korea, welcomed alumni, Wharton faculty, guest speakers and panelists to the event, which included a series of discussions on strategic alliances, investment banking, the role of governments and the role of entrepreneurs.

On June 24-25, the Wharton European Forum '99 convened in London around the theme of "Preparing for Success in Europe 2000.)" Keynote speakers included Didier J. Delepine, president, Equant N.V., and Hilmar Kopper, chairman of the Supervisory Board, Deutsche Bank AG.

Panel discussions focused on "Monetary Union, Cross-Borders Mergers & Acquisitions, Privatizations: Their Implications for Financial Markets and European Business," and "Leadership and People Management Across Borders: How to Make It Work in Europe."

Regional Alumni Meetings, 2000

Already planned for next year are the 7th Asian Regional Alumni Meeting in Manila, June 9-10; the 1st Latin American Regional Alumni Meeting in Buenos Aires, June 22-23, and the Wharton European Forum in Paris April 27-28. ▼

Panelists Dinner

From left: George Yang, WG'64; J.J. Choi, WG'80; Jose Cuisia, Jr., WG'70, and Rene Golangco

Guest Speaker Tony Tan

MBA Admissions

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The past several months of planning our fall recruitment have been very busy. Our itinerary calls for travel to 38 countries and 21 cities domestically. Internationally, we plan first-ever recruitment trips to Amsterdam, Barcelona, Brussels, Budapest, Copenhagen, Manila, Singapore, Bogota, Beirut, Johannesburg, Kuwait City and Karachi.

Domestically, admissions officers will visit Austin, Charlotte, Cincinnati, Denver, Kansas City, Minneapolis, Phoenix, Pittsburgh and St. Louis to conduct first-time interviews and/or receptions. In addition, this fall, with the support of Deloitte Consulting and Andersen Strategic Services, we will host 10 separate U.S. receptions specifically targeted to recruiting women for the MBA program. Throughout the fall, we will continually post updated information regarding our receptions and interviews, both domestic and international, at Wharton's web site: http://www.wharton.upenn.edu.

I am concerned that the sheer scope of our travel and the rapid pace of our office make it difficult to stay in touch with our staunchest advocates, our alumni. Because we value your suggestions, we have set up an email account, specifically to communicate with you, at bob.alig.wg87@wharton.upenn.edu

I hope this makes it easier for you to stay in touch, share your thoughts about the Admissions and Financial Aid Office and even recommend that we reach out to a particular student you think would be a great addition to the Wharton MBA community.

I want to thank you again for your support as we endeavor to recruit and select the very best students from around the world for the Wharton MBA program. The staff of the MBA Admissions and Financial Aid Office and I look forward to working with you to assure that the aforementioned records set by the Class of 2001 are short-lived. ▼

Investing on the Internet

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kindred spirit, Josh Solan, W'02, another M&T student who had also been interested in investing and the Internet in high school. Together during their freshman year they wrote a guide for the average investor, "The Trader's Internet Handbook: Separating the Bull from the BS!"

Looking for a publisher, Leitzes and Solan sent their 63-page guide out to magazines. Editors at *Forbes* last spring saw the publication and invited the two to help research and write the *Forbes Interactive Money Guide*, a special fall issue of the magazine. Meanwhile, the two sophomores are working on an expanded form of the original handbook in an effort to target a broader audience of investors who are new to the Internet and "want an A-Z guide to where the best financial resources are and how to invest online ...

"People want to find out what the next amazon.com or Microsoft is going to be. You aren't going to read about that in the newspaper or find it out merely talking to a broker," said Leitzes, who lives in Yardley, Pa. "But with the Internet, with chat rooms and web sites and the like, there has never been a time when there is more information out there for the average investor."

Leitzes and Solan are particularly interested in the interactivity of the Internet and how it can help investors. A large part of "The Trader's Internet Handbook" describes how and where to hook up with like-minded investors and traders to exchange information.

"Ideas for investing used to come from the neighbor down the street or in a conversation with a broker," said Solan, who went to Penncrest High School in Media, Pa. "But now the most powerful thing is that the Internet can bring investors together to give them the tools that put them on the same playing field as the professionals. I think the professionals are a bit afraid of that, but it can be good for everyone, because all investors will be more knowledgeable."

Despite already carving their niche in the business world, Leitzes and Solan fully intend to continue on with their education. Leitzes is interested in music and theater; Solan intends to learn more about programming.

"And, let's face it, yes, we can be like everyone else," said Leitzes, with a slight halt in his voice. "I have to admit that our dream, too, is to have an Internet start-up."

Robert Strauss

A World of Data

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In the pre-WRDS past, notes Ratnaraj, data sets were stored on unwieldy central server systems and users had to run Fortran programs to analyze or extract the relevant information. Now, he says, Wharton's online data repository eliminates the need to access bulky mainframe tapes to perform data analysis and greatly diminishes the risk of time-consuming programming errors. The data access component of faculty research has become virtually invisible.

The goal of WRDS, McCartney states, has always been to provide Wharton faculty with the best research environment possible. And the fact that Wharton has been asked to license its expertise to other business schools is significant. "It means that when people think of quantitative research," he says, "they are thinking first and foremost of Wharton."

Food, Shelter and Clothing:

Buying the Basics on the Internet

How Is E-commerce Affecting the Way We Shop for Milk and Tomatoes, Houses and Office Buildings, Skirts and Suits?

"Whether you sell stock or sell suits, the Internet has changed the world." Richard Grasso, chairman, New York Stock Exchange.

• • •

By many accounts, the selling power of the Internet is unstoppable. While books, compact discs, computers and software are among the most popular e-commerce items, increasing numbers of shoppers are also picking up cars, flowers, collectibles, expensive chocolates, greeting cards and a variety of other goods and services, from the mainstream to the offbeat.

Yet over the long run, some are wondering just how viable e-commerce will prove to be as a money-maker with a distinct appeal and advantage of its own. Stripped of the gee-whiz bells and whistles, is clicking a mouse substantially different from making a phone call to order something out of a catalog? Does e-commerce hold the potential to transcend the role of being a mere electronic catalog?

If so, then what about using the Internet to procure the basics of life — food, shelter and clothing? Is there a future for profitable e-commerce ventures in staples like milk, bread and tomatoes? Homes and apartments? Skirts, suits and underwear?

Maybe, say Wharton alumni and faculty. More than likely, they add, some e-businesses may come to occupy a small-but-comfortable niche catering to consumers who can afford the luxury of, say, having food delivered to their doors once a week. Still, e-businesses will have to overcome barriers if they are to sell to anything like a mass market, not the least of which is the fact that millions of Americans still don't own computers. In other instances, online and offline interests may merge to build on one another's strengths to reach new customers in different ways.

At least as far as food, shelter and clothing are concerned, the web is, for now, primarily a superb tool for disseminating information about products and for enticing existing and new customers to phone or visit a store and buy items the old-fashioned way. As for the future, it's anyone's guess, although some observers are clearly bullish about e-commerce's growth potential across an array of retail businesses.

In an April 1999 report titled *e-Commerce: Virtually Here*, analysts at Merrill Lynch cited various forecasts showing that retail sales on the Internet could total between $35 billion and $75 billion by 2002, and $100 billion by 2003. These figures include only goods, not services such as brokerage transactions and travel reservations. Forty percent of the projected increase will come at the expense of non-

Internet mail-order sales, Merrill estimates, the other 60 percent at the expense of traditional stores.

By comparison, in 1998 e-commerce sales totaled $8 billion, while total retail sales amounted to $2.7 trillion.

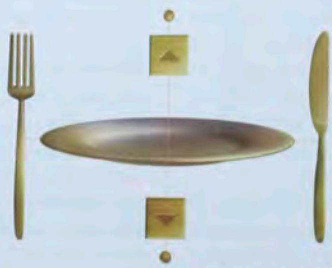
"We view the growth of the Internet and e-commerce as a global megatrend, along the lines of the printing press, the telephone, the computer and electricity," the Merrill report notes. "We believe it will affect dozens of industry sectors in the world economy over the next decade."

In the face of such predictions, we decided to ratchet down and look at how the Web has been, and could be used, to buy those three essentials — what you eat, where you live and what you wear.

e-Groceries: Bringing the Store to Your Door

One industry already affected by the Internet is groceries, a tough business where makers of consumer goods ruthlessly compete for shelf space and proprietors are happy with wafer-thin profit margins of one to two percent.

A number of e-commerce companies — some established, some new — sell groceries to customers via the Internet. They include Peapod Inc. and NetGrocer, two veteran e-grocery businesses, as well as newcomers Webvan Group Inc., Foster City, Calif., HomeGrocer.com Inc., Seattle, and two companies based near Boston, Streamline Inc. and ShopLink Inc.



Forrester Research Inc., a Cambridge, Mass., firm that analyzes e-commerce, said in a 1998 report that e-grocery sales "remain a blip on the radar screen." But it noted that such sales could reach nearly $11 billion by 2003 — about two percent of the total amount of groceries sold through regular stores.

"Manufacturers should pay attention to this channel," the report says. "Despite small sales, grocery producers can exploit the Net in three ways: drive offline sales with promotions, conduct research with this key consumer segment and sell a select group of products direct."

Gerald Lohse, research director for the Wharton Forum on Electronic Commerce, a joint initiative between industry and Wharton Executive Education, has studied e-grocery businesses. He says about half of online food sales involve specialty items that have long been sold through the mail — for example, fruit and meat from companies like Harry and David and Omaha Steaks. The other 50 percent consist of full-service grocery items — ketchup, pickles, corn, eggs, beans and the like.

No national full-service grocery service exists, Lohse says. E-grocers serve regions. Ten-year-old Peapod, for instance, operates in about a half dozen metropolitan areas, and accounts for about 70 percent of the online grocery market. Webvan operates in the San Francisco area, while Streamline and ShopLink cater to consumers in Boston and environs.

Lohse says he likes Streamline's approach. In addition to providing groceries, the company will also pick up and return dry cleaning, develop film and deliver rented videos to customers. "They put a refrigerator in your garage with a keyless entry system," Lohse says. "You can order up to midnight and then all the stuff gets delivered" the next day, even if the customer isn't home.

Surprisingly, he adds, fruits and vegetables are among the most popular items sold by Streamline (and other retailers), even though customers don't get a chance to squeeze the merchandise. The reason: online customers get first crack at the best produce. Online grocers know, he says, that folks who get stuck with limp celery, rock-hard cantaloupes or brown lettuce will soon be ex-customers.

A study by Lohse and other Wharton researchers as part of the Wharton Forum on Electronic Commerce found that online grocery shopping largely appeals to two types of people: to those who are "time-starved" and are willing to pay a premium for door-to-door service and to technology-savvy folks who like new electronic gizmos and lead a "wired lifestyle."

How are traditional grocery chains responding to the incursion by online merchants? Not with anything approaching panic, if H-E-B Inc. is typical. The privately-held, San Antonio-based firm operates 250 stores in Texas, Louisiana and Mexico. With annual sales of $7 billion, H-E-B is the tenth largest supermarket chain in the United States. Its chairman and chief executive officer is Charles C. Butt, W'59.

ILLUSTRATION: TOM WHITE

H-E-B uses its four-year-old web site to sell a limited number of non-perishable items like jellies, jams, coffee, honey and barbecue sauce. Customers can also click on specialty meats such as a fully cooked hickory-smoked brisket. A five-pound roast that takes 18 hours to cook costs $48.50, which includes shipping.

Beyond this effort, though, H-E-B has no plans to make a major foray into online grocery selling and delivery anytime soon because there probably isn't a big enough market for e-groceries in much of the Lone Star state, says Scott McClelland, senior vice president, marketing.

For one thing, he says, the annual incomes of residents in the area H-E-B serves are much less than those of people in big Northern cities. Plus, "the farther south you go in our trade area, the less technology has taken hold ... Modem penetration south of San Antonio is relatively low, except for Austin. The issue is, how do you lower the cost to the customer if you're going to charge them $9.99 to deliver groceries? In some places like New York or Chicago that are highly urbanized, there's more opportunity [to sell online]."

Another reason e-groceries may be slow to catch on in a lot of places in Texas and elsewhere is that food shopping usually isn't a thoroughly planned event. Most people don't know what they're going to buy at the supermarket until they get there, says Barbara Kahn, Dorothy Silberberg Professor of Marketing at Wharton and co-author of the 1997 book *Grocery Revolution: The New Focus on the Consumer*.

"Sixty-six percent of grocery decisions are made in the store," says Kahn. "When I go in, I know I'll buy Crest toothpaste, but I don't know what I want for dinner."

Ultimately, McClelland says, e-grocery businesses nationwide will capture, at the outside, 10 percent of the total grocery market. What has H-E-B really excited in the field of e-commerce isn't food but drug-store products. H-E-B operates 135 pharmacies within its grocery stores, and by next year it plans to roll out a highly automated, low-cost online operation that sells prescriptions, vitamins and the like.

Wharton's Lohse says online grocery sales may only account for one to two percent of total grocery sales five years from now. And Lohse says that, like H-E-B, other big supermarket chains aren't making a big push online. If they want to make an e-commerce splash, they'll probably wait until an e-grocery company becomes successful and simply buy the firm.

Kahn agrees. "Delivery is a big issue, the cost of it. Until you get economies of scale, [online grocery selling] is not going to make sense."

Still, Lohse contends that major consumer product companies can ill afford to ignore the Web. "A lot of companies like Kraft and Pepsi and Coke are trying to figure out how to position themselves in this market. It's a very low-margin business, and a five percent shift in market share could have huge repercussions for these manufacturers ... It's crucial that they not stand on the sidelines."

e-Shelter: Property Hunting on the Web

If you're looking to buy a house, you probably do it in a way that hasn't changed in years. You go through newspapers, read descriptions and look at pictures. You do the same thing with homes featured in the multiple listings provided by your agent. You do a lot of driving and walk in and out of dozens of houses.

Does the Internet offer a better way to house-hunt? Yes. Is it a revolutionary new way? Not really, at least not yet, says Peter Linneman, Sussman Professor of Real Estate at Wharton and a consultant to Chicago-based Equity International Growth Properties and other real estate companies.

"[People] have tried for some time to do brokering of houses and apartments on the Internet. To my knowledge they've been very limited in their success," he says. The reason is obvious: no one will buy such a big-ticket item without inspecting it first-hand. "The stuff [the Internet] is good at [selling] is commodities" like books and CDs, says Linneman. "Homes aren't commodities."

The Web can, however, be a terrific source of information. It allows customers, especially those who wish to move to distant locations, to see more homes more quickly than they could with newspapers. Technology can also allow a person to take a 3-D "virtual tour" of a house. In addition, people can narrow their choices to residences that include specific amenities, are in a certain price range or are located in certain school districts.

One well-known real estate web site is the National Association of Realtors' HomeStore.com Inc., which operates four sites under its umbrella. They are: Realtor.com, which has 1.3 million home listings; HomeBuilder.com, which lists more than 100,000 new homes and planned developments; SpringStreet.com, which offers more than six million apartment units; and CommercialSource.com, the association's commercial real estate site.

Linneman believes the Web is destined for greater success in helping businesses sell commercial properties to other businesses. People on the commercial side of the industry, he says, are more savvy about the strengths and weaknesses of properties and aren't as emotionally tied to properties as home buyers are.

"If you're the University of Pennsylvania and you want to lease 30,000 square feet downtown, I can bring up [on a computer screen] in your office nine different buildings, different floor plans, and walk you through them," he explains. "Business-to-business users are always going to know that there is bad space and good space in what you take. Homeowners want to know what view they're going to have out the window."

John Bucksbaum, a member of the Wharton Real Estate Center's Advisory Board and CEO of Chicago-based General Growth Properties Inc., the nation's third largest owner of shopping centers, agrees that the Internet has great potential to generate business-to-business transactions. "Surprisingly, we've received a number of leads that we have actually translated into actual lease deals via the corporate web site."

The fear that the Web will replace "bricks and mortar" businesses is unfounded, he adds, as was the fear that television or videotapes would kill the movie industry. One probable scenario, he says, is that more and more e-businesses and traditional businesses will enter into partnerships to take advantage of each other's strengths.

Such alliances are already happening. Writing in the July 29, 1999, issue of London's *Financial Times*, reporter Roger Taylor notes: "Just six months ago, there seemed an unbridgeable gulf between the online and offline business worlds ... But attitudes are changing fast and both sides are starting to collaborate to build the 'clicks and mortar' businesses that are most likely to succeed in the long run ... Most traditional businesses now recognize they probably lack the skills and corporate structure needed to succeed online, while online businesses recognize that a physical presence is essential for most e-commerce. After all, a customer does have to take delivery of goods."

Real estate companies — which historically have been local in outlook and privately held in ownership — have been as slow to recognize the value of the Internet as they have been to embrace securitization and globalization, says Jacques N. Gordon, another member of the Wharton Real Estate Center's Advisory Board.

"But it's now making up for lost time very, very quickly," says Gordon, managing director, LaSalle Investment Management Inc., which has $20.5 billion in global real estate assets under management. "There's a tremendous change going on in terms of how much information you can get online about the listing of homes."

> Selling groceries over the Internet could reach nearly $11 billion by 2003 - about two percent of the total sold through grocery stores.

Gordon agrees with Linneman that there is a limit to what e-commerce can do in real estate. "You still will rely on your five senses to make your transaction," Gordon says. "But you're going to find that both the brokers and the consuming public will be using the Web to narrow their search and be more efficient about the very costly documentation process that goes on in the purchase, sale and financing of homes. Anyone who's been to a closing will know what I'm talking about."

Gordon also says the Internet will eventually be instrumental in accelerating the tedious and costly process of property appraisals.

"Lenders will increasingly accept an appraisal based as much on statistical analysis as on physical inspection," Gordon predicts. "Lenders would make some assumptions about the law of large numbers applying to home sales to the point where you reduce your reliance on the idiosyncratic inspection of a building and rely more on industry-wide norms for certain areas."

The appraisal industry isn't thrilled about this possibility, Gordon says. But "they are coming to realize that they are friction in the system — friction that can be reduced if they automate the process more. You still will need a photograph [of the property] and a site plan, but your sales will be online and your architectural plans for a building will be digitized. And, presumably, the appraiser can do a report electronically and send it to the lender electronically."

e-Clothing: Trying on a Virtual Dress in 3-D

Unlike groceries and real estate, there is a long precedent for shopping for clothes from catalogs, and the Internet is, in part, a natural extension of catalog shopping. "It makes perfect sense to sell apparel online," says Kahn of Wharton's marketing department.

One department store chain that has made a commitment to strengthening its e-commerce effort is Bloomingdale's, a unit of Federated Department Stores. But Bloomingdale's isn't quite where it wants to be just yet, not only in terms of the amount of clothing available through its web site, but across all of its merchandise lines, says Susan Silver Miller, W'78, vice president, shopping services.

"Bloomingdale's has recognized how important it is to participate online and ultimately become e-commerce enabled," not just an information supplier about the store's merchandise, she says. "We don't view [the Internet] as something that will threaten our core business. We think of it as a terrific vehicle to let people know about Bloomingdale's ... We ask customers to do profiles so we can understand what they want on our site. We've also done some research and focus groups to find out who among our existing customer base have visited the web site and what they like and don't like. We're interested in learning more."

At the moment, she says, customers can order a limited number of clothing items and other products over the company's web site. Each order is downloaded by a personal shopper at a Bloomingdale's store, packed and mailed out. If an article of clothing isn't available in the customer's first choice of color, the personal shopper can e-mail the customer, describing the colors that are in stock. The company currently has no group of employees or warehouses solely dedicated to fulfilling e-commerce sales. "We are not where other companies are in investing in [the Internet] as a new business," she says.

But Miller says Bloomingdale's has the wherewithal to take e-commerce a step further. In March, Federated bought Fingerhut Corp., a catalog company known for its top-notch systems and technology to fulfill customer orders. That know-how could be made available to Bloomingdale's, Macy's and other stores owned by Federated.

> "What the 'Net does is make catalogs more current. Companies can close out (merchandise) and change prices more quickly."

"Why should we reinvent something when it's there to be had?" Miller says. "Federated has a strong strategic commitment to embrace [the Internet as a distribution channel]. If the back operations aren't there to support sales and deal with complaints, I think [a web site] is doing more harm than good."

In addition, there are some inherent limitations as to how much Bloomingdale's can sell online. Using the Internet to buy the kind of high-end apparel for which Bloomingdale's is famous isn't as simple as breezily buying a sweater or rugby shirt online from L.L. Bean.

For one thing, Miller notes, "a lot of the customers who buy the most expensive merchandise we carry are not computer literate people." What's more, many Bloomingdale's customers don't want to buy high-fashion items online, only to have to worry about getting them altered later.

That problem, however, may one day be solved. Len Lodish, Samuel R. Harrell Professor of Marketing at Wharton, says consumers eventually will be able to have 3-D pictures taken of themselves with digital photo equipment. A picture will be kept on file on the Web and the customer will be able to "try on" different garments to see how they look and to ensure a proper fit. Several of Lodish's former students are working on such a system now.

"That technology exists," Lodish says. "It's still expensive, but it's just a matter of time."

Lodish says the Internet also holds great promise in the areas of "data mining" (obtaining information on customer needs and preferences), in a variety of business-to-business transactions and in augmenting retail catalog sales of clothes and other goods. In Lodish's view, using the Web as a tool to complement catalogs is no small matter. "What the 'Net does is make catalogs more current. Companies can close out [merchandise] and change prices more quickly."

Indeed, the possibilities seem endless. General Growth Properties' Bucksbaum describes an alliance with an outfit called CoolSavings.com, the Web's largest dispenser of discount coupons, through which General Growth Properties is generating traffic for stores in its malls. In exchange for providing CoolSavings with information about themselves, computer users receive electronic coupons via e-mail, which can be printed out and applied to various products sold at the stores in the malls.

At the moment, the process is "a little bit hit or miss," Bucksbaum says. But, as time goes on, the company intends to tailor the coupon-distribution process to people's interests and buying habits. "If you're somebody who wears Air Jordans, we could [provide] discount coupons when the latest model of Air Jordans came in, instead of a coupon for earrings at Claire's Boutique," Bucksbaum says.

"This is an overused term," Bucksbaum continues, "but the Internet has caused a paradigm shift to occur in all industries. We're just at the beginning of [e-commerce]. It's going to change more and more as time goes on. But I don't believe [e-commerce] is the demise of any business, as long as the business is willing to recognize the change that's occurring and change along with it. We look on it as an opportunity that's going to enhance retailers' sales." ▼

Written by Stephen J. Morgan, a Philadelphia area freelance journalist and former director of media relations at Wharton

Retail Banking's Hard Sell

What's In It for You?
More Importantly,
What's In It for Them?
Professor Chip Hunter
Looks at Productivity
in the Highly Competitive
Banking Industry

Chip Hunter recently went to his local bank with a request to move money from his checking account into a Certificate of Deposit (CD). "The bank knows me. They have my money. How hard can this be?" he remembers thinking.

"I sat there with the banking rep for 40 minutes. It was an incredibly slow process," Hunter says. "Some parts of the system are automated; others aren't. Some systems weren't talking to each other, others were. The rep had to get up and go collect information from other areas of the bank. It was astonishing."

Hunter, W'84, assistant professor of management at Wharton since 1994, then went to his office, fired up his data set and found that the mean time to move money from a checking account to a CD was 39.7 minutes. "My bank," he concluded, "was no worse than the average."

While most consumers can probably relate a frustrating experience or two with their local banks, few have spent close to five years studying productivity in the retail banking industry.

It's not exactly an academic question. Banks, says Hunter, whose experience is mainly in the human resources area, are well aware that advances in technology coupled with changes in today's financial marketplace have ramped up the competitive environment for everyone. Which retail banks survive depends largely on how they manage a set of different and often conflicting goals over the next decade.

Hunter's ongoing research includes not just analysis of individual bank branches but also a study of call centers (which focus on servicing inbound calls as opposed to telemarketing, which refers to salespeople making outbound calls, usually at dinner time). Hunter is looking specifically at the increasingly large role these call centers play in industries ranging from financial services to computer software to telecommunications.

Depending on your point of view, he notes, call centers are either "dark satanic mills" staffed by unskilled workers in low-paying dead-end jobs, or they provide employees with an opportunity to be part of the new high-tech information-based economy. In many ways, Hunter says, "call centers represent the jobs of the future."

Tellers vs. ATMs

Hunter, who earned his PhD from MIT and his MA from Oxford, has always been interested in workplace and job-related issues. His research tends to focus on the relationship between human resource management and organizational performance, especially in the service sector.

His exploration of the retail banking industry began in 1994 — with funding from the Sloan Foundation through the Wharton Financial Institutions Center — to analyze why some banks operate more productively and/or efficiently than others. In collecting their data, Hunter and colleagues Patrick Harker, interim and deputy dean of Wharton and UPS Transportation Professor for the Private Sector, and Frances Frei, now an assistant professor at Harvard, were somewhat hampered by the fact that different banks use different metrics to measure such functions as sales growth, productivity and the cross sell rate (i.e., the rate at which customers who already have one financial product, such as a savings account, are successfully sold additional products, such as a mortgage or mutual fund).

For example, in measuring productivity, Hunter says, "some banks look at number of transactions in a particular branch; others look at number of customers, others at number of accounts. So at times we felt like we were trying to compare apples and oranges."

Even so, the researchers were able to draw several conclusions about the organizational structure within branches. "We focused in part on how important it is to align technology and human resources towards a particular set of goals," Hunter says. "In many cases, banks that were trying hard to increase sales had technology systems that supported efficiency but not sales growth. So each function ended up suffering.

"We also looked at job design. Several of the banks had strict job design criteria that resulted in the specialization of individual employees in ways that weren't in line with overall goals. For example, an employee who has been trained to move a customer through the line quickly in some cases wasn't able or willing to focus on what the customer might need beyond the original transaction.

"Many theories of management talk about the importance of job rotation and having interchangeable parts," Hunter says. "Our research here takes a different spin on that. It suggests that if you have interchangeable parts, you want to make sure the jobs are designed simply and employee discretion is limited.

"If you have more focused design, however, then you want more employee discretion *within* the job. Either approach contributes to sales and productivity but mismatches can be harmful."

In the summer of 1996, Hunter and Harker received a grant from the National Science Foundation to partner with one single bank that was in the process of revamping its entire retail delivery system. "The advantage of working with one bank is that you know what the metrics mean," Hunter says. "Sales measures across all branches, for example, are the same. And if they tell you this branch is doing well and that one isn't, you believe them."

So far, Hunter and colleagues have been able to identify which branches have the most satisfied customers, which ones are experiencing faster sales growth, which ones are processing more transactions and so forth. The trick is to understand why.

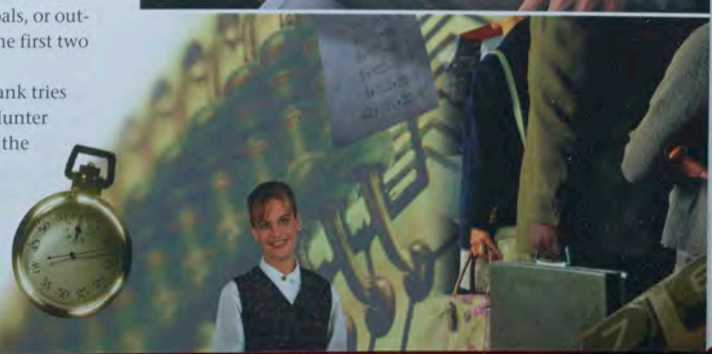
Hunter is looking at the human resource practices, the technology systems and the process design of individual branches. And he is focusing on four specific goals, or outcomes, that each branch is trying to achieve. The first two are customer satisfaction and increased sales.

"Some people might be irritated when the bank tries to sell them additional products or services," Hunter says. "Yet there are branches in this bank where the customers are happy and where sales are up. You can imagine why that would be true. If the customers are satisfied, then they are more inclined to listen to what the bank's salespeople are offering."

Another goal of retail banks these days is migration to new technologies, i.e., encouraging customers to conduct their banking transactions more efficiently, such as choosing the ATM rather than standing in line for a teller. "One very rough measure of migration is to look at what proportion of deposits — mainly checks — at the branch are fed into the ATM rather than taken through the teller line," Hunter says. "It's usually under 50 percent and can easily be as low as 25 percent. Some people just don't trust machines.

"Banks are also very interested in ratcheting up their telephone call center capabilities," Hunter adds. Again, they don't want customers to stand in line and ask someone to check their balance. "It's much more efficient for requests to go through the call centers where hundreds of employees have been hired specifically to answer these kinds of questions."

Hunter



PHOTOGRAPH: JERRY MILLEVOI

At times, Hunter says, goals can appear to conflict with each other. For example, while banks want to encourage migration to ATMs and call centers, it is also true that "person-to-person contact in a bank branch does increase customer service opportunities and therefore sales opportunities. So you want to have technology that supports a whole range of services and make sure employees understand how to use the technology correctly, plus have job designs and job incentives that encourage them to do this."

A fourth goal of the bank branch is to achieve the first three goals while keeping costs as low as possible. "It's easy to have customer satisfaction when there are 20 knowledgeable, well-trained employees working in a bank branch," Hunter says. "But that may not be cost effective."

In analyzing the data on 200 bank branches collected over a two-year period, Hunter and Harker have identified several branches — about 10 percent of the total studied — where performance was high and where growth had been achieved in the four target areas. "In the rest of the branches we found predictable kinds of tradeoffs being made between these outcomes," Hunter says.

Selling the Right Products to the Right People

So what is it about the top 10 percent that makes them so successful? "It's very important that all employees in a particular branch have a positive attitude about the alignment of goals and objectives," Hunter says. "People need to think that yes, the phone center is an effective way to serve customers, and yes, customers ought to be putting deposits in the ATM, and yes, customers who do come into the bank represent a sales opportunity. Yet this kind of attitude is quite rare. In most branches you have employees who think the phone is an annoyance or that customers should conduct very little business at the branch. So personnel need to have a coherent view of how the whole approach fits together. Instead, you see a lot of variation across branches."

Achieving that positive attitude, Hunter adds, depends on consistent messages from management combined with the selection of employees who are comfortable with the new environment. "Frequently that means excluding employees who are more attached to an old type of banking environment where the focus wasn't so much on sales."

Interestingly, performance doesn't seem to depend on the kind of local market in which the branch operates. "We are finding high-performing and low-performing branches in all kinds of areas — suburban, urban, distressed and so forth. It's not like branch employees are helpless in the face of particular types of customers.

"Of course it's also important to recognize that different markets or locations are going to have different requirements. The clever banks will figure out how to make all their product lines potentially profitable and will get their employees to direct the right products into the hands of customers in their local markets. For example, in an area with lots of students, employees should promote credit cards and fee-based accounts; in an area with lots of home owners branches should be promoting mortgages and home equity loans. The point is that employees in a big organization should focus on one set of products in one area and on a different set in another area. You don't necessarily promote mutual funds in every branch in every city."

An Incentive Plan for Some

Hunter's research also finds that for this bank, the branches need to function as teams, but not teams with interchangeable parts. Rather, these branches have several different types of jobs, and they don't overlap, nor are they expected to.

One category is sales people, whose job is to encourage customers to buy mutual funds and other investment products, take out home equity or auto loans, etc. "These people don't need a strong commitment to the bank or their co-workers. They need to like selling and they need to like money. They're on the incentive plan," Hunter says.

Another category is the tellers, who need to identify with the particular branch they work in, cultivate a sense of teamwork and "feel like part of a family."

Two very different job functions. "It's when people are hitting those functions and are comfortable with them that you have successful bank branches," Hunter says.

Also, many places emphasize an incentive-based approach, i.e., get all employees on the incentive plan and everything will work out fine, Hunter says.

"In our first study, we couldn't identify any positive effects of incentive plans. What we discovered in our second study was that it's more complicated than that. The incentive plan is important for sellers, but less so for others. In the case of a customer relations manager it makes sense to choose people who are likely to stay in the local area, who will therefore be inclined to develop loyalty and commitment to the local branch and who are less upwardly ambitious. It's a job you could imagine someone enjoying for 15 years."

In addition to his studies of bank performance, Hunter has researched the issue of job quality in banks and banking services. "Banking employees in general have to reorient their expectations about what a career means," Hunter says. "Their organizations are becoming much flatter. In the old days someone could start out as a bank teller and climb his or her way to the top. That's increasingly difficult. Even in sales, which tends to hire college graduates who are comfortable with technology and with the sales environment, there is a much flatter setup. Employees are given a nice office and good salary and are expected to sell, sell, sell."

Telephone: Up Close and Personal

As for consumers, how will the changes taking place in retail banking affect them? Not positively, Hunter says, at least in the short-term. "Banks are going to experience a number of starts and stops in their efforts to make their customers do certain things," he says. "Consider the attempt to encourage the use of Web-based banking, which banks are promoting as much more convenient than traditional banking. But then the banks start charging for it. Consumers might have liked the idea initially, but for $15 a month in extra charges some will give it up.

"Basically banks are struggling mightily with a number of initiatives even as investors are angry because sales aren't going up and costs aren't going down. The efficiencies aren't happening as quickly as investors would like."

The same sorts of fits and starts are occurring in banks' call centers as well, Hunter says. "Consumers can expect banks to pressure them — through fees or by closing branches — to do their transactions on the phone. The problem is banks don't yet have a good handle on which channels are best for sales, or for retaining customers or for providing routine services. Again, it's all a series of experiments that are difficult to evaluate because the environment is moving so fast."

Meanwhile, Hunter says, "it turns out, to banks' great annoyance, that customers like to add channels of communication, not subtract them. People keep going to the branches even as they use the call centers and bank on the Web. These are all ways to interact and they are all convenient. I'm walking past the branch; I'll stop in. I'm home at midnight and can't get to sleep; I'll log on. I feel like talking to someone; I'll ring up the call center to check my balance because eventually a person will answer. Just as there is a whole percentage of people who won't use ATMs, there is also a whole percentage of people who pretend they have a rotary phone.

"Consumers keep piling up ways of interacting and banks keep concocting ways to try and make these interactions more efficient."

"Just as there is a whole percentage of people who won't use ATMs, there is also a whole percentage of people who pretend they have a rotary phone."

Call Centers at a Crossroad

Concerns about the workforce — including job quality, training opportunities, mobility and compensation — have led Hunter and colleagues Steffanie Wilk, assistant professor of management at Wharton, and Rose Batt, an assistant professor at Cornell, into a third project, a grant earlier this year from the Russell Sage and Rockefeller Foundation to study call centers.

Given the widely different images that people have of call centers, Hunter is looking at what exactly determines the mix and quality of job opportunities in this industry. "Why are some of these jobs lousy and some good? For the lousy jobs, are there particular strategies, management structures or policies that could enable people to build up their skills and move out of the worst environments into better ones? What does mobility in call centers even mean?"

At one bank Hunter studied, employees could move from simple retail transactions — like telling customers whether they are overdrawn — to conducting research on potential customers to making calls to business clients and so forth, all of which demand increasingly complex skills and allow employees the opportunity to move up a career ladder.

Of course before one can study call centers, it helps to know how many people work in this field and where. The answer is not so easily found. The U.S. Department of

Labor, for example, counts jobs by occupation, such as teller, service worker or salesperson, but doesn't break out what proportion of service and sales workers are in the call centers vs. in the branch vs. on the road, says Hunter. "Some people have estimated that there are millions of people in these jobs but it's hard to know which figures are credible."

> "It's easy to have customer satisfaction when there are 20 knowledgeable, well-trained employees working in a bank branch. But that may not be cost effective."

What Hunter does feel certain about is that "we are at a fairly critical choice point for these kinds of jobs. They have the potential to be structured so that they provide reasonable amounts of opportunity and earnings for workers with a variety of skill levels, from people with high school diplomas and reasonable literacy skills on up to those with college degrees.

"At the same time, I think it is entirely possible that management will use the technology that is out there to tightly constrain a big chunk of these jobs and make them boring and dead-end. One reason they would act this way of course is because it lowers labor costs and because customers aren't willing to pay for better service. And one reason management is relatively unconstrained in making these choices is because, from a policy point of view, there are no unions in banks. Unions won't let you set up these low-paying, dead-end jobs. Their role is to negotiate with the employers and win higher wages for their members. If you are paying someone $13 an hour you will figure out how to get $13 worth of work out of them. If you are paying them $5.25 an hour, it's different."

Interestingly, Hunter says, one place employers are "getting bitten" is in the tight labor market. Managers will set up a call center in one area that they have selected for certain reasons, including the availability of cheap labor, and then other companies will follow. Pretty soon companies are stealing employees from each other and bidding up the hourly wage. In places like Tampa and San Antonio, starting wages have recently spiraled up to $11 or $12 an hour.

"So the original employers may have built these centers premised on cost efficiency and yet they now have no idea how to get efficiency out of employees at $12 an hour."

Looking Ahead

Banks, of course, are not only vying with other banks for market share but also with non-bank competitors, such as brokerages and mutual funds. And the expectation is that regulatory barriers to banking will continue to fall, thereby increasing the pressure to operate ever more efficiently.

Meanwhile, there are all the other challenges involved in running a bank, Hunter says. "Managers still have to make intelligent lending and pricing decisions, respond to M&A possibilities, decide long-term strategy, watch the global markets and so forth. And I think that they do all this well. They are really good at what we typically think of as 'banking.'

"But they are struggling with how to use human resources and technology to get their products and services to customers conveniently and efficiently.

"It's these kinds of issues that interest me," Hunter says, noting that he and his colleagues are continuing to analyze their data on the retail banking industry and are just starting their study of call centers. "We are sorting through a huge amount of information," he adds. "Our end goal is to know why management is making the kinds of choices it does, and what the implications of these choices are for employers, consumers and employees."

R.W.S.

FEATURE

The Courage to Change

Meet Eight Alumni Who Took a Chance and Traded Security for the Pursuit of a Passion

On the Big Screen:

Rick Yune, W'94

Rick Yune's career change began to unfold seven years ago in a building on 5th Avenue and 17th Street in Manhattan. Yune, who was taking a year off from Wharton, had an appointment with an attorney to discuss the merits of a career in law. An executive from a modeling agency also at that address happened to spot Yune on the elevator. He handed Yune his card and suggested he drop by.

From there, it's been fast forward for Yune. He started modeling for Versace and Polo Sport, returned to Wharton for his degree, spent three years working for a hedge fund while also taking acting lessons, and earlier this year landed a lead in *Snow Falling On Cedars*, a movie based on the *New York Times* best-selling novel. The movie, which made its debut at the Toronto International Film Festival in September, opens this December.

Meanwhile, Yune has been interviewed by magazines like *GQ*, *Details*, *Newsweek*, *Vogue*, *Mademoiselle* and *Premiere*. He is traveling to film festivals and film awards ceremonies around the world. And he has been offered parts in several other movies.

It's definitely been a career switch, although Yune, who was brought up in Tacoma Park, Md., by Korean-American parents, is not exactly writing off the business world. For a while he considered becoming a Wall Street trader, "but I couldn't see myself doing the same thing for the next 15 years, no matter how much money traders can make," he says. "I didn't want to become a slave to that lifestyle." He has, however, started an ice tea business in Manhattan (a joint venture with a bottling company in the Midwest), completed two private placements in Internet companies and is looking to start an Internet multimedia venture.

Yune's rapid rise to the top of two of the toughest fields in the world — modeling and acting — has given him a definite perspective on success. "Modeling helped me pay my bills while I was at Wharton," he says. And although he occasionally would jet off to Paris or some exotic island for a photo shoot, "most of modeling is going to a studio, changing outfits and standing in front of a camera. It's just about selling clothes."

As for acting, Yune, who lives in Los Angeles, knows he has been lucky. "I'm a product," he says, an Asian American actor in a market where the pool of talented Asian Americans is relatively small. "I was there in the right place at the right time. It would have been a lot more difficult for me if I were Caucasian or African-American. The competition is much tougher.

"In one respect I'm just an image on a piece of paper, and if I look at that image in one way I see that there is a lot of room to grow and a lot of opportunity."

A career as an actor, Yune adds, is more difficult than, say, being an entrepreneur. "There, all you are risking is your money. In entertainment, the risk is more personal. It's a business of attrition. Tomorrow it could all be over."

A New Vocation:

Skip Ferguson, WG'78

After Skip Ferguson earned his MBA from Wharton and law degree from Cornell, he spent the next 15 years in law and business. That included, for example, four years in law firms in

Chicago and Buffalo, two years as head of business development for the trust and investment group of Key Bank in western New York and three years as part owner of a chain of ski shops called The Ski Rack. "The one thing they didn't teach us at Wharton was how to predict the weather," he says. After three mild winters, he and his partners sold out.

In 1990 he worked for a consulting firm in Buffalo and in 1994 was hired by *The Economist's* Intelligence unit as an editor in its management and finance publications group. His team produced large research reports on such topics as derivatives, leadership

"I was dealing with people and having a positive impact in ways that I didn't feel I was having in the business world."

development, change management and the impact of technology on global business.

During all the years that Ferguson worked in law and business, he was actively involved in both his church and the community, serving, for example, as a trustee for Westminster Presbyterian church in Buffalo as well as a board member for the YMCA. "I found that the more I was doing with the church, the more I wanted to do," he says. "I was dealing with people and having a positive impact in ways that I didn't feel I was having in the business world."

Ferguson started to tell his business colleagues, his family and people in his church that he was considering going into the ministry. "'Does this make sense?' I remember asking them. And they all said, 'absolutely, this makes *so* much sense.'"

Ferguson interviewed with the director of admissions at Princeton Theological Seminary. He had lunch with a first-year student, a former investment banker. He applied for, and received, a full-tuition scholarship. To meet his living expenses he landed a part-time job as an editorial consultant for Wharton, writing and editing the school's multi-part *Financial Times* series on "Mastering Finance" and "Mastering Marketing." "Slowly but surely the pieces fell into place," he says.

Ferguson graduated in June from the three-year master's of divinity program and is now looking for a job as a pastor in a Presbyterian church. "I know that when you are in your 20s you feel invincible. You get your degree from a prestigious institution. You join a consulting firm, you're golden for the next few years, you get married, have kids, buy a big house. All of a sudden reality hits in the form of a divorce, or a job setback or an illness. And then the questions start to come. They are not clichés. You wonder what this is all about, and what is next."

If Ferguson had any doubts about choosing his new path, they all disappeared in August 1998 when he received a telephone call from Wharton classmate and friend Joel Friedland. It was not a social call. Friedland told Ferguson that he had been diagnosed with esophageal cancer. There was a pause in the conversation and Friendland asked, "If I don't make it, would you preside at my funeral?"

Friedland lost his fight with cancer and died in January. Ferguson led a memorial service for his friend a week later. "Joel's service was filled with sadness, to be sure, but it was also filled with love," Ferguson says. "He had such a wonderful family and so many caring friends. It was so powerful to lead the service that celebrated Joel's life. And that may best sum up my new calling: whether it is leading worship, teaching, counseling, performing weddings or presiding at funerals, it is all about celebrating the gift of life each of us has been given."

Heavy on Talent:

Lori Christopher, WG'95

After working for two and a half years at Bain & Co. in London, Lori Christopher finally decided to make her move.

"I had taken a summer off to attend a film-making class at NYU, as a test to see how serious I was about the entertainment industry," she says. "It was at that point that I realized if I didn't do it now, it would never happen."

Bain allowed Christopher the flexibility of working part-time so she could pursue her job search before moving back to the U.S. "I came to Los Angeles for a week to 10 days at a time, doing informational interviewing with fellow Wharton grads, with friends of friends, friends of the family, anyone I knew who was in the entertainment industry."

The legwork paid off and Christopher found a job — in the mailroom, to start — with Endeavor, a talent and literary agency in Beverly Hills that is "relatively new (four years old), and has about 100 employees and a great reputation," says Christopher. Endeavor's clients on the talent (acting) side include, for example, Adam Sandler, Bill Paxton, Jeff Goldblum, Arsenio Hall, Bette Midler, Heather Locklear, Diane Lane and Minnie Driver, to name a few.

"I was lucky because there was a lot of turnover shortly after I started and within six weeks I became an assistant to one of the partners." After 10 months she was promoted to the new position of coordinator for the talent department, where she manages information coming from emails and meetings, and updates all of the databases to ensure that agents have pertinent information about projects that are casting, among other responsibilities.

Christopher originally expected to move into the literary side of the agency, "which in Hollywood doesn't mean books, it means writers and directors. But the talent department is much more fast-paced than literary. Actors work three-to-four times a year and you are constantly booking them, whereas directors can work on the same project for up to two years."

Christopher is shooting to be an agent, which she hopes will happen in the next year. Her business background, she adds, has been an asset. "I'm able to use my business/negotiating skills as well as indulge my passion for the creative side in representing and working with writers/ directors/actors."

Before coming to Wharton, Christopher, who graduated from USC, worked at ABC television, Apple Computer and in her uncle's garlic processing company in Burgundy, France, where she did marketing and operations management.

At Endeavor, she makes about 20 percent of her former salary at Bain, although it helps that her husband, Joel Post, WG'95, works for Credit Suisse First Boston. Even so, says Christopher, "I don't spend money like I used to."

All That Jazz:

Mitch Goldfeld, WG'93

Mitch Goldfeld called from his car phone on his way from Boston to Litchfield, Ct., where he was about to launch his third annual jazz camp. "We have approximately 100 students, ages 10 to 65, who come to study jazz with faculty who I hire mostly from New York and Connecticut," says Goldfeld. "So for the next couple of days I'm spending my time schlepping music equipment."

It's a far cry from his pre-Wharton days, which he spent at Goldman Sachs, and his early post-Wharton days, when he worked as an investment analyst for Wellington Management Co. Goldfeld today is president of his own music management company, MAGI Productions, where he manages 10 world-class jazz artists who tour all over the world. He also teaches piano one day a week and performs at a Boston restaurant on Friday nights.

"I'm not making Wharton salaries, but I've made a go of it," he says. "I'm supporting myself and my wife, an aspiring opera singer. We're expecting a child in January." His wife just finished a long Gilbert & Sullivan run in Boston. "We like to say that our child is performing in *The Mikado* every night," Goldfeld says.

The switch from finance to music wasn't as abrupt as it may seem. Goldfeld is a jazz and contemporary music pianist who performed in jazz ensembles throughout high school and college. During his first year at Wharton, he was the pianist for the Follies; his second year he was music director.

What precipitated his career change after three years at Wellington, however, was a chance meeting with a hotel pianist in the Marriott Copley in Boston. Goldfeld, who was attending an investment conference, had stopped by to ask the pianist for names of piano teachers. "His response was 'I don't know any but do you know any subs who could fill in for me at the hotel a couple of times a month?'" Goldfeld offered himself, got the job, and realized after a few months of playing that "I wanted to be immersed in music rather than having it as a hobby." A few months later, a pianist asked Goldfeld to be his manager, which eventually led to MAGI Productions.

"My Wharton degree has helped, without a doubt," Goldfeld says, citing specifically his courses in the legal

Rick Yune

Skip Ferguson

Lori Christopher

Mitch Goldfeld

Richard K. Summers

Ruth Gottesman

Nancy Yaffa

Philip McHugh

aspects of entrepreneurship, venture initiation and negotiation.

Golf, On Paper:

Richard K. Summers, W'74

After Richard Summers graduated from Wharton he spent five years working in the audit and tax departments for the national CPA firm Laventhol & Horwath. He left to join a client in the cable television business who hired him to help create new ventures.

"One of his ideas was for me and another employee to start a magazine similar to *TV Guide* for the cable TV industry. Neither one of us knew anything about publishing, so we were perfect for the job," recalls Summers. Back in 1980, he adds, the industry "only wanted a very small guide for a couple of pay TV channels. HBO and Showtime weren't even 24 hours a day. The market wasn't ready for a full-scale magazine."

Before long, it was. What started out as a monthly with a circulation of 2,000 and two employees ended up six years later with a monthly circulation of 5.6 million and 150 employees. Summers and his partner sold the magazine, called *The Cable Guide,* and the company, called T.V.S.M., to an investment group in 1986. (It was sold again, last year, to *TV Guide.*)

"I retired for about a week," he says, at which point he and his family moved for a year to Switzerland. While there, he started a company called Great Golf Resorts of the World, Inc. "What happened was I met my college roommate's sister in Geneva. She asked me what I was planning to do after I got back to the States, and I told her I had to meet Jack Nicklaus. As it turned out she knew somebody right there in Geneva who knew Nicklaus well. The introductions were made and four months later I signed an agreement with Nicklaus to be a partner in my company."

Great Golf Resorts of the World, Inc., based in Bala Cynwyd, Pa., publishes two magazines. The first, *Great Golf Resorts of the World,* has two annual editions. One goes to private golf clubs and the other is an in-room directory for resorts. "It's also a marketing consortium for these properties ... We represent 46 of the world's top golf resorts," says Summers.

The other title comes out five times a year and covers the four major championships plus the Ryder Cup.

In addition, the company has a joint venture, based at the Gleneagles Hotel in Scotland, which is responsible for all the official publications of the Ryder Cup in Europe.

Despite this combination of enterprises, Summers' company has only six employees. "I freelance out everything I can, including editors, writers and photographers. The world of publishing has changed radically because of computers, email, faxes, mobile phones and so forth, so that it is much easier to have expertise based all over the world and yet be able to work together very closely. The freelancers can operate out of their own home or office and they get their work into a beautiful, high-profile magazine. The great benefit to us is that this arrangement allows us to concentrate on things we do best, such as finding advertising and building up the business."

And did Summers get the idea for Great Golf Resorts of the World, Inc. because he loves golf? "I'm not a fanatic golfer and I'm not a very good one either," he says. "I thought it was a good business idea."

Public Relations, with a Twist:

Ruth Gottesman, W'90

Ruth Gottesman graduated from the Fels School of Government at Penn after she completed her Wharton degree, and then went to work for the federal government.

As a presidential management intern she spent two years working with the U.S. Food and Drug Administration and the U.S. Department of Transportation as a mass transit program analyst. She then worked for a U.S. congressman until January 1995, when her boss lost his bid for the U.S. Senate.

"I spent much of the next year looking for a job, but I really didn't want to stay in government. I was tired of the bureaucracy and the sheer politics of Washington. I felt like I needed a break."

During that same year, Gottesman returned to her home in Brooklyn to help her father care for her mother, who had become ill. Her mother died in October 1995. "That was the impetus for dramatically changing careers," she says. "Up until then I had been considering working for the mass transit agency in San Francisco. But when my mother passed away, it opened my eyes to the fact that I have a limited amount of time on this earth. I asked myself what I really wanted to do, what it was that I really loved. And the answer was movies and the entertainment industry."

Gottesman took a class on starting a career in the film industry at the New School. Her teacher helped her arrange internships at two movie studios with offices in New York, Warner Brothers and 20th Century Fox. That led to a full-time job in 1996 at New Regency, a production company. "I spent a lot of time marketing the movie *LA Confidential* while I was there, working on the movie poster, TV commercials, the film trailer, the publicity campaign. It was fascinating."

The industry itself, says Gottesman, "is both different, and not so different, from government. The bureaucracy and office politics seem the same wherever you go. And coming from a business background, I found that the lack of business skills in the entertainment world drove me crazy. For example the way money is spent. You are not really rewarded for saving money on a project. It can be just the opposite. The incentives can be perverse."

When Los Angeles-based New Regency closed its New York office in 1997, Gottesman was out of a job. She is now taking more classes, this time in public relations. "I would be interested in public relations with an entertainment bent to it," she says, "like working for a company that does PR for a movie or an actor, or firms that connect celebrities with public causes. That type of company would be a great merging of my two fields — government and entertainment.

"For now," Gottesman says, "I'm still trying to map it all out. The last nine years have been pretty interesting. It's certainly not been the straight career path that I had imagined."

Food and Film:

Nancy Yaffa, WG'92

Nancy Yaffa was into her fourth year as a product manager at Coach, the New York-based leather goods company, when she ran into an old college friend at a party. He and another of their classmates had an idea for a restaurant that would be both a place to eat dinner and to watch first-run independent films. Yaffa, who had dreamed for years of being a restaurant owner, immediately saw the idea's potential. She helped her friends raise $1 million and, in July 1996, the Screening Room opened in Manhattan's TriBeCa neighborhood.

By the end of 1997, the Screening Room — which includes a 130-seat movie theater, 175-seat restaurant, bar, lounge and screening rooms — was turning a profit. The partners are looking to open a second restaurant in New York and perhaps go national as well. Yaffa's major responsibilities in the venture are marketing and operations, which include everything from advertising to hiring and training staff to arranging private parties. "We have several different party areas that range from a 20-person private dining/screening room on up to a space that can handle 150 and is used for corporate events, weddings and premieres," she says.

"I enjoy doing things that are entrepreneurial," Yaffa adds. "When I was at Coach, I was in charge of developing and launching a line of technology-friendly cases, including ones for cellular phones and computers ...

"The only down side (to opening the restaurant) is that, initially at least, you don't make the money that you do in a big corporation. My salary is half what it was at Coach. Eventually I think the money will be there but in the meantime, it's a big pay cut.

> "The only downside is that, initially at least, you don't make the money that you do in a big corporation."

"For me the best part (of The Screening Room) is that it combines all aspects of business — human resources, marketing, finance, management," says Yaffa. "And it's great being my own boss. I haven't regretted the career switch for a minute."

The Business of Pets:

Philip McHugh, W'74

"I worked with cows for about a year and thought I wanted to work with horses as well. But it's very physically demanding labor. I got tired of

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Duilio J. Baltodano, W'70: Looking to Nicaragua's Future

Nicaragua, says Duilio J. Baltodano, president of Comercial Internacional Agricola, S.A., in Managua, has had its share of disasters. "First there was the earthquake in 1972, then the Sandinistas from 1979 to 1990, and just last year Hurricane Mitch. The macro figures were bad before the hurricane and now they are worse. But with international help and our dynamic private sector, we are moving ahead and I am optimistic that we will be competitive again within the next five years."

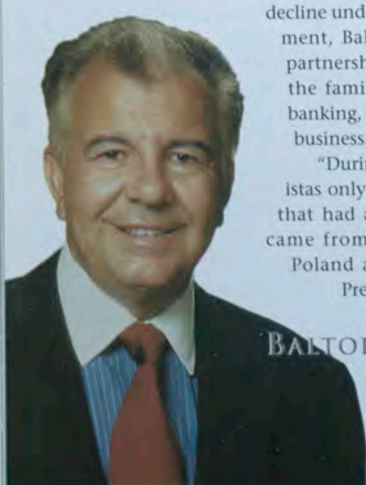
Baltodano, like his country, is used to changes in fortune. After graduating from Wharton, he spent most of the next decade working for two of his family's businesses: coffee exporter Cisa Exportadora and Cisa Agro, an importer of agricultural products ranging from tractors to fertilizers. Then in 1979, after three years of civil war, the Sandinistas seized power, confiscated private property and nationalized private enterprise, most of it owned by Nicaragua's largest and wealthiest families.

"They took our coffee export business, banking business and family farms. Everything, with the exception of Cisa Agro, was run by the new government," says Baltodano. "It was a tremendously difficult time. We were considered enemies of the state."

Although the Baltodano family was allowed to run Cisa Agro during the Sandinista period, Baltodano raised his family while commuting between Managua and Miami over the next 11 years. In 1990, the Sandinistas were ousted and a new conservative democratic government was elected under Violetta Barrios de Chamorro. "We started to rebuild," Baltodano says.

He and his family established new coffee production operations in the northern part of Nicaragua and successfully jump-started their former cattle and pig farming operations, both of which had fallen into decline under the Sandinista government, Baltodano says. Through partnerships and joint ventures, the family has also moved into banking, insurance and the movie business.

"During the 1980s, the Sandinistas only allowed political movies that had a message. The movies came from places like Cuba and Poland and they were horrible. Pretty soon it was impossible to get things like seats, screens and projectors. We found bats flying around the main theater in Managua. So we started renovating the halls. When Taiwanese investors developed a new shopping mall, we joined forces with them and opened a movie complex. We now have one of the largest movie chains in Managua."



Baltodano

Four generations of the Baltodano family have attended Penn: Duilio's grandfather, Moises Baltodano, Penn Med 1893; his father, Duilio I., W'39; and his two brothers, Jose Antonio, W'73, and Alejandro, W'77. Duilio's oldest son, Duilio, Jr., is a Penn sophomore.

These days, Baltodano is in frequent contact with the current government, led by Nicaraguan president Arnoldo Aleman. "We are helping to encourage private investment, especially for the development of the agricultural sector," he says.

> "During the 1980s, the Sandinistas only allowed political movies that had a message."

The Baltodanos are clearly doing their part. In addition to Cisa Agro, with its strong agricultural component, and Cisa Exportadora, which is now Nicaragua's largest coffee exporter and roaster in Nicaragua, the family owns Café Soluble, Central America's second largest instant coffee plant, which exports private-label coffees throughout the region and to the U.S. And seven years ago, Baltodano, his father and his brother, Jose Antonio, started New York-based Mercon. Today it is the second largest coffee importer in the U.S.

While coffee is Nicaragua's biggest export, the agricultural sector is one of its most promising. "We are a small country but we have to be efficient in areas where we compete," Baltodano says. "Agriculture suffered last year but we see people planting again and trying to recuperate from a bad period. This year, production is on the rise."

Jay Baker, W'56: The Rewards of Retailing

Jay Baker, director and recently-retired president of Kohl's Corp., the $3.8 billion Wisconsin-based department store, is unabashedly bullish on his company, his company's employees and his industry.

First, his company, which by the end of this year will have 300 stores in 23 states: "We are a low-cost producer that offers great value to our consumer," he says. "Our prices are competitive and we are always in stock on our basic items" (primarily apparel and home products). In addition, "we are convenient. The majority of our stores are built, not in malls, but near where consumers live, like strip centers. And if we are doing our job properly, our customers can get in and out of our stores quickly."

Second, "but most importantly," his employees: "We have the best retail people in America," Baker states. "Employees, both executives and associates, are the key to the success of this company.

"One of the things we do better than most is that once we have made up our minds to take a certain action, we do it," Baker adds. "A few years ago we decided to offer Dockers [men's and women's sportswear]. We sat down with the people at Dockers and [parent] Levi Strauss, came up with a game plan, considered space issues and in a few months were able to roll out Dockers shops in every one of our stores."

Third, the industry: "For the right people, it's a terrific place to be," says Baker, who grew up in Queens, N.Y. "At a very early age you can have a lot of responsibility, like being a buyer or running a store. Your actions can have an immediate impact. In many other industries, you don't get those kinds of experiences so quickly. It's a chance to be your own person and feel good about yourself."

There are financial rewards as well. At Kohl's, all employees at the buyer, store manager level and higher, as well as certain support staff, receive stock options. And since 1992, Kohl's has had an employee stock ownership plan for all associates who work 1,000 hours or more a year.

Baker himself chose retailing for a number of

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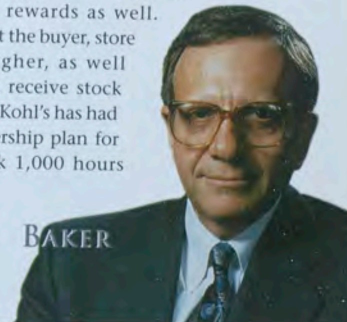

BAKER

Shelly L. Boyce, WG'95: New Approach to Medical Management

It's not hard to match Shelly Boyce with the profile of a typical entrepreneur.

Boyce is founder and CEO of MedRisk, a specialized medical management company focused on the treatment and management of musculoskeletal injuries for workers' compensation.

The hardest thing about her job is "never being able to let go. You eat this, drink this, wake up at 3 a.m. and feed the baby with it," says Boyce, who has three children, 4, 3 and two months. "And I tend not to celebrate the successes long enough. As soon as we accomplish something, I'm thinking yes, but what else, what's next. It's important to acknowledge achievement with your colleagues. They need to feel rewarded and appreciated for their efforts."

MedRisk, which began in 1994 with 10 employees and covered two states, now has 60 employees covering 15 states. And while it started as a provider network of physical therapy centers, it has recently evolved to offer more managed care services for musculoskeletal injuries, including medical management, peer view and bill review. Its primary clients are insurance companies and large managed care organizations. This year its physical therapy network includes more than 6,000 providers in more than 2,000 locations.

Much of MedRisk's success is attributable to Jerry Poole, also WG'95, whom Boyce met while they were both students in Wharton's executive MBA program. Poole, who is MedRisk's COO and CIO, oversees day-to-day operations and developed and designed Medrisk's proprietary software program. This

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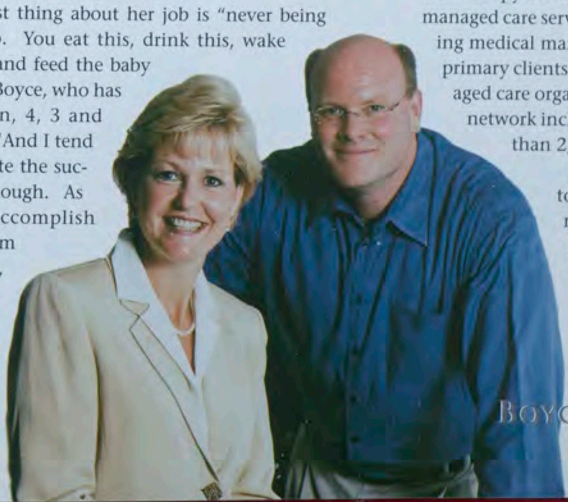

BOYCE AND POOLE

Real Estate Booms and

Banking Busts

Banks and national currencies may be the most visible victims of fast-moving international economic crises, but the true root cause is often traced to the real estate booms that precede a bubble economy that ultimately must burst.

Whether the market is farmland in the U.S. or commercial real estate in Bangkok, Tokyo or Stockholm, the evolution of real estate prices looks remarkably similar, according to Richard Herring, Julian Aresty Professor of Finance, and Susan Wachter, professor of real estate and finance.

In a monograph published this summer, Herring and Wachter highlight the common features that mark rising real estate prices, which fuels lending — often collateralized with appreciated real estate assets. When the real estate bubble bursts banks are awash with nonperforming loans and attempt to shed assets in order to rebuild their capital positions. New real estate lending ceases and banks try to call in existing real estate loans putting still more downward pressure on property prices.

"The real estate market is particularly susceptible to waves of optimism because the two natural counterforces to excessive optimism (short sales and increased supply) are largely absent in commercial real estate markets," Herring says. "We lack organized markets for selling commercial real estate short and supply can take anywhere from

ILLUSTRATION: BRIAN REA

two to eight years to respond to increased demand."

Once the real estate bubble has burst, the obvious question is, "Why were banks willing to bet so heavily on rising real estate prices?" Herring and Wachter find evidence of disaster myopia in bank decision-making. Moral hazard and poor information and weak analysis are also heavily implicated. "The process is quite insidious," notes Herring. "Because real estate lending has often been relatively problem free for a considerable period, lenders feel that they can reduce loan-to-value ratios and lower risk premia and fees without taking greater risk. This is an example of a more general phenomenon that has been studied extensively by cognitive psychologists. A broad range of evidence indicates that people tend to underestimate the probability of a disaster when a very long time has passed since that last occurrence."

The tendency of banks to have broader similar exposures to such hazards is often called herding. Herring argues that this is a natural tendency in a situation of uncertainty. "When decision-makers lack a firm, analytic foundation for their decisions, they tend to take comfort from the fact that others are making roughly the same decisions. Regulators often facilitate herding by providing peer-group comparisons." Herding may take on a more sinister cast when banks are decapitalized, warns Herring. "Bankers know that if they keep their exposures broadly in line with those of other banks, then if a problem occurs, it will be a systemic problem, not just a problem for their bank. The policy response will be very much softer in such circumstances."

When the real estate bubble bursts banks are awash with nonperforming loans and attempt to shed assets in order to rebuild their capital positions.

The real estate crises in Asia had much graver implications for economic activity than similar crises in the U.S. Herring argues that the reason is that Japan and the other Asian economies — and, indeed, most economies in the world — are much more bank dependent than the U.S.

Financial markets in the U.S. are so highly developed that banks hold less than a third of assets. In Asia banks hold more than three-quarters of all assets. "In such bank-dependent economies when banks are decapitalized by bad real estate loans, it's very difficult to re-ignite growth until the banks are recapitalized," argues Herring.

Herring outlined a series of policy alternatives to deal with these issues. These included measures to correct disaster myopia, improvements in information and analysis and recommendations to curb moral hazard. "The key emphasis should be to make sure that banks are well-diversified, strongly capitalized and able to meet stress tests reflecting the market dislocations that we know can occur — even if they don't seem likely at the moment," he argues.

Herring and Wachter speculate that one U.S. innovation may have been effective in preventing the development of a real estate bubble in the U.S. over the past three years. They argue that the new Real Estate Investment Trusts (REITs) have brought greater market discipline to commercial real estate development. REITs are monitored by security analysts who have increasingly won demands for better disclosure from the industry. Herring advances the hypothesis that "when commercial real estate markets began to overheat, REITs declined in value, reducing the flow of new financing to the industry and perhaps forestalling another real estate boom." If that is true, the emergence of better-informed real estate markets may help stave off future busts based on unsustainable, speculative frenzies of real estate development. ▼

BAKER *continued from page 25*

reasons. He had experience at an early age working in his parents' millinery store in Flushing, N.Y.; in a career assessment test he took after Wharton, retailing came out as one of the professions most suited to his abilities; and he genuinely enjoys interacting with people.

In addition, he says, "I was fortunate enough to work for some excellent people in the industry," including Kohl's, Macy's, the May Corp. and Saks Fifth Avenue (a subsidiary of BATUS Inc.).

Baker, who will officially retire in December, has been with the company since 1986. That year, Kohl's was purchased from BATUS in a $75 million LBO led by outside investors along with members of Kohl's management, including Baker. In 1992, Kohl's completed a successful IPO, although it wasn't clear in the beginning how things would turn out. "We went public in May of that year, and it just so happened that March and April were not particularly good months for us," Baker remembers. "In fact they were two of our worst, just when we were going out to tell the world what a great company we were. But things turned out well, and the two months *after* the IPO were two of our best."

Baker, who joined Wharton's undergraduate advisory board earlier this year, is looking forward to the months ahead. "I've never had any time off," he says. "I've worked my whole life. So I plan to do some traveling and work on my golf game. I also think there will be ways that I can continue to be involved in business." ▼

BOYCE *continued from page 25*

program, which Boyce describes as the company's "competitive advantage" and a "barrier to entry" for would-be competitors, monitors treatment outcomes and provider results by integrating the clinical and financial aspects of care.

The two graduates appear to complement each other. Boyce, who worked for 10 years for a small entrepreneurial medical company before and during her two years at Wharton, describes herself as someone who "likes to create and innovate, think out of the box, who is easily bored and therefore impatient to move on. Jerry," she says, "worked for Boeing before coming to Wharton. He is very detailed, analytical, well thought out, the kind of person who will take a concept and create a sustainable operating structure for it."

MedRisk's success is based on "a new approach" to the medical management of musculoskeletal injuries, says Boyce. "We looked at how our market segment — musculoskeletal injuries — was managed and reimbursed in workers' compensation, and we created a new approach that holds the providers accountable for results. Our contractual relationship with our providers establishes a maximum reimbursement by diagnosis to treat each individual. The system is similar to the DRG (Diagnosis Related Group) system for Medicare. It cuts off payment, not coverage."

MedRisk, based in King of Prussia, Pa., can claim its share of ups and downs. "One of the most difficult things we have faced was the loss of two major clients," says Boyce, who grew up in Richmond, Va., and graduated from the University of Virginia with a BSN in nursing. "Neither client was lost because of us — we were a subcontractor under another contract. But one client was 50 percent of our business in 1995 and the other was 30 percent a year later. Those weren't insignificant hurdles for us to overcome, especially because we are a small company and I didn't want to downsize. We did it but it was challenging. And now we're in a much more secure position than we were." ▼

CAREER CHANGE *continued from page 23*

getting kicked and bitten."

McHugh, a veterinarian, now has two cat-only clinics and one cat and dog clinic, in addition to helping supervise an emergency vet clinic in the town of Durham, N.C. He has clearly found his niche.

But it took a few years to get there. After graduating from Wharton, McHugh worked in commercial banking in West Orange, N.J., for two years before he and his wife decided to travel around the country. They eventually relocated to Cary, N.C., where McHugh was director or foundations investments at N.C. State University for four years. He first thought about getting a graduate degree in business, then considered becoming a doctor. But his wife, an oncology nurse, said she wouldn't put him through medical school. "She didn't like many of the physicians she had met," he says.

Instead, McHugh, who has always loved animals, decided on vet school. He got his degree in 1985 and set up a practice in Durham, where he and his wife and three children now live.

It's a very "sane" life, he says. Any after-hour emergencies go to the clinic, which means he works regular days, doesn't have to wear a beeper and "no longer gets called out of church or away from a child's birthday party" to attend to a sick or injured pet.

His Wharton degree, he says, has helped "tremendously." In addition to their role as vets, he and his colleagues are also "small businessmen. I handle everything on the business side, from dealing with equipment leasing to talking with bankers, lawyers and financial advisors. I also enjoy mentoring new vet grads.

"The only regret I have is that I didn't take more entrepreneurial courses at Wharton," McHugh says. "I'm always thinking about another career, like starting a house building company. I'm an entrepreneur at heart." ▼

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