

MIND | WORK

LEADING SCHOLARSHIP FROM SANTA CLARA UNIVERSITY SCHOOL OF BUSINESS

Dean's Message

The faculty of the Leavey School of business is committed to creating knowledge through scholarship, sharing knowledge through teaching, and solving problems facing businesses and our community. The Leavey School's Centers and Institutes are where our faculty collaborates to solve problems that require interdisciplinary expertise.

This issue of *Mind|Work* focuses on faculty collaboration in our Centers and Institutes. You'll read about the interdisciplinary efforts of our faculty to create our new California Program for Entrepreneurs (CAPE), as well as faculty partnerships focused on solving the twin problems of childhood obesity and chronic hunger in our community.

I am inspired by the spirit of collaboration and partnership embodied by the faculty showcased in this issue, and I know you will be too.



All the Best,
S. Andrew Starbird, Ph.D.
*Dean and Professor of Operations &
Management Information Systems*

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CHALLENGING AN ASSUMPTION: Kirthi Kalyanam's research has shown that in broad-term internet searches, commanding the top advertising spot does not always generate profitable results.

The Value of the Top Spot In Search-Engine Advertising, It's Not Always Best

In the brave new world of internet advertising, one of the key questions is how to get the best return on search-engine ads. For instance, if a searcher types in "sunglasses," what's the value of having the top advertising position in the ensuing search engine result? With the help of a major internet retailer, Kirthi Kalyanam, director of the Retail Management Institute at SCU's Leavey School of Business has been researching that question. His finding is that in searches that use broad category descriptors such as "sunglasses," there actually is a penalty attached to the top spot, which doesn't generate the sales per click of the second and third-placed ads. ▷

the value of the top spot

“People have a lot of emotions about being at the top of the page,” he says, “and quite often you have to do a lot of explaining to the rest of the company if you’re not. But we can look at numbers and measure the effectiveness of position, and when you do that, being on top is not necessarily best. There can be a significant rate premium for the top spot, but it doesn’t always pay off in sales.”

Kalyanam’s findings are reported in a working paper titled “The Sales Performance of Top Positions in Search Engine Marketing: The Effect of Brand and Price Terms.” While finding a penalty for the top spot in general searches, it concludes that as searches become more specific in brand and price terms, the penalty diminishes or goes away altogether.

This has to do, he says, with two factors—where the searcher is in the purchase process, and the ability of the search engine to display relevant results.

When a person goes to Google and types in “sunglasses,” that individual could be a prospective buyer at the first step of the search or a student doing research for a term paper

on how sunglasses work. The search engine has to take those possibilities into account, and in either case, the searcher is probably not ready to buy, so the top ad position will get a large number of clicks that result in no sale.

However, if that same person then types in “discount sunglasses,” the search results will skew toward purchase information, and if a brand name is added, such as “discount Ray-Ban sunglasses,” the search narrows further and the prospect of a sale grows.

“People have a lot of emotions about being at the top of the page.”

Kirithi Kalyanam

Retail Management Institute
Leavey School of Business

“The more information Google gets, the easier it is to decipher the intent of the search, what the results need to show and what the relevant links are,” Kalyanam says.

Before launching his inquiry, Kalyanam read more than 30 books on internet and search engine advertising, which showed that there was a difference of opinion among advertisers—but not much hard data—on the value of the top ad position on a search page.

Compiling that data took nearly a year, Kalyanam says, and there was such a torrent of information that he likens it to “drinking out of a fire hose.” But by looking at such measurements as Conversion Rate (CR), which shows how many views of an ad result in a sale; and Average Order Value (AOV), it became clear that the top spot on the search page underperformed in general searches but did better with brand and price-specific searches.

“For the first time in marketing history,” Kalyanam says, “search engines can help us understand consumer vocabulary and this will enable new marketing possibilities.” ▶

Working Across Channels

Bridging the Gap Between Stores and E-Commerce

With the advent of the internet era, nearly every retailer has become a multi-channel operation, selling goods in physical stores, online, and sometimes through catalogs or other channels as well.

This has profound implications for a company’s business model, yet research by two professors at Santa Clara University’s Retail Management Institute (RMI) has found that many companies are not managing the new reality effectively.

“We interviewed dozens of C-level executives at retailers in the United States, Europe and Asia,” says Dale Achabal, RMI executive director. “By and large what they’re

telling us is that while their companies have a presence in more than one channel, it’s not clear they have a multi-channel strategy.”

In an attempt to address this issue, Achabal and RMI Director Kirithi Kalyanam wrote a white paper with IBM’s Institute for Business Value, titled “Cross-Channel Optimization: A Strategic Roadmap for Multichannel Retailers.” In it, they lay out a five-stage framework for cementing a strategy to make the various retail channels operate in an effective, integrated fashion.

As an example of the types of issues created by multichanneling, Achabal cites the way in which customers now move between channels. A customer might search for and

buy a product online, then decide to return or exchange it at a nearby store operated by the retailer. Or the customer might want to order online and pick the product up at the store.

If the different channels haven’t been strategically integrated, the interplay between them will be ineffective and inefficient. Because compensation policies typically revolve around sales, the internet division could resist sending a product to the store for pickup for fear of losing credit for the sale. At the same time the store could resist taking a return on an internet sale because it’s putting out money and taking on inventory from another channel’s unsuccessful sale. Retailers need to structure pay and organizational incentives to



MISSED OPPORTUNITIES: Dale Achabal says that many retailers aren't properly integrating their stores and internet sales to get the most from all the channels through which they sell.

make sure the two sides work harmoniously rather than at odds with each other.

"Today's consumers are much more informed and expect to be able to shop how, when, and where they want," Achabal says. "If that's a problem, they don't understand, because from the customer's point of view, it's all the same brand."

Another issue is leveraging the separate channels so that each does what it can do most efficiently, even if that means treading on what had previously been the prerogative of another channel. For instance, store executives typically have their own advertising budget, but in the case of a company with a strong catalog presence, it might make sense to saturate the store's surrounding area with directly mailed catalogs and cut back on the store's discretionary advertising budget.

Achabal and Kalyanam lay out in their paper the process that companies should follow in achieving an effective multichannel operation. The stages are:

- **Create a presence.** Simply get up and running in a new channel.
- **Align fundamentals.** Make certain that basic value propositions such as assortment and pricing are in sync.
- **Achieve proficiency.** Reduce costs in the new channel through economies of scale and integrate cross-channel customer interactions, such as shop online/pick up at store.
- **Leverage across channels.** Exploit channel-specific capabilities and drive collaboration between channels.
- **Optimize the operating model.** Establish permanent and repeatable processes for dealing with cross-channel issues and optimizing resource allocation among channels.

"True multichannel retailing is a better business model that needs to be driven by senior management," Achabal says. "Most retailers still do not understand it and are not benefiting from it." ▶

Animation Pioneer Also First Multi-Channel "Marketeer"

The internet may have turned every retailer into a multi-channel business in the past few years, but there's one media company that practically defined the model a half-century ago: Disney.

"Disney is a great example of a multi-channel operation that leverages its key business activities across channels very well," says Dale Achabal, executive director of the Retail Management Institute. "When they release a movie, it isn't just a movie; there's a music CD, merchandise tie-ins with McDonald's, a Saturday morning cartoon, a new ride at the amusement park, and it's all very well coordinated and interconnected.

"They've been doing it that way since the mid 1950s, decades before other companies were doing anything like that. It shows that leveraging activities across channels isn't new; however, even today most companies don't make the most of the possibilities to change their underlying single-channel business models."

About the Retail Management Institute

For three decades the Retail Management Institute (RMI) at Santa Clara University's Leavey School of Business has been a powerful educational resource for students and industry executives, as well as a research resource for the retail industry.

Students majoring in any subject at the university can participate in the Retail Studies Program and earn a minor in that field. This is a practical way for an English or psychology major, for instance, to learn how their area of interest can be applied to the business world and to offer a stronger resume upon graduation.

"We select the best students for the minor," says Dale Achabal, RMI executive director. "The students who participate in this program are going to be aware of what leading companies are doing

and where they're going. There are a lot of opportunities for challenging and rewarding careers in the industry."

One alumna, Achabal said, received her degree in psychology and is now a senior executive at Macy's; another, who earned a degree in finance, is chair of Hugo Boss-Americas. RMI makes a point of using successful alumni as a resource, bringing them back to campus to share their expertise in the classroom and talk with students about their careers.

RMI has an advisory board comprised of national leaders in the retail industry, including senior executives from Apple, Cost Plus World Market, DFS Group, Gap, Hugo Boss, IBM, Macy's, Trader Joe's and Williams-Sonoma.

Service to the retail industry itself is provided through management

development programs, offered by RMI's Executive Education and also through a research program that utilizes the intellectual resources and expertise of the Leavey faculty. Faculty conducted ground-breaking research on optimizing pricing and promotions and on inventory/supply chain management. Much of the current research focuses on the effect of e-commerce on retail activities (see other articles this issue).

Achabal says RMI has been able to be a force in retail training and research by constantly adjusting its focus to reflect the challenges and opportunities in the retail world.

"We're continually modifying the curriculum," he says, "so that it will not only reflect but anticipate changes in the retail industry."

Developing the Whole Entrepreneur

CIE Planning to Lead the Way in Silicon Valley

Ever since Hewlett and Packard set up shop in their garage, Silicon Valley has been known as the home of entrepreneurs. Santa Clara University's Leavey School of Business is moving aggressively to become a leader in developing the next generation of those entrepreneurs.

"Our goal is to have a world-class entrepreneurship and leadership program," says Dan Aguiar, dean's executive professor of entrepreneurship and executive director of entrepreneurship programs. "We can do it by working with the business community and our alumni, building on the knowledge and experience of our distinguished faculty, developing joint programs with other centers and schools

"Our goal is to have a world-class entrepreneurship and leadership program."

Dan Aguiar

Executive Director of
Entrepreneurship Programs
Leavey School of Business

at the Santa Clara University and leveraging the energy and interests of our student body."

Founded earlier in the decade, the Leavey School of Business's entrepreneurship and leadership program builds on the University's Jesuit educational excellence, state-of-the-art facilities, distinguished faculty, highly-regarded Advisory Board and extensive alumni network to prepare students for entrepreneurial leadership through a variety of programs and opportunities.

Aguiar, a former SCU adjunct professor, rejoined the University in February with responsibility of leading the entrepreneurship and innovation program within the Leavey School of Business. His objectives are to enhance, enrich, and expand the current programs within the Center of Innovation

and Entrepreneurship, work with the Entrepreneurship Leadership Team (ELT) to coordinate the refinement and development of the degree programs and curriculum in entrepreneurship and innovation, as well as develop new programs, the first of which is already underway.

This summer will mark the beginning of a new initiative that is generating considerable interest: The California Program for Entrepreneurship (CAPE). Aguiar says, "Over a period of six months, CAPE will

Participants will prepare a business plan that will be entered in a competition judged by a panel of experts that includes industry experts and financiers.

provide education and mentoring for emerging entrepreneurs in various stages of development with a goal of developing a business plan for start-up companies that will provide jobs in California, help revitalize the California economy and rebuild communities."

Twenty entrepreneurs will participate in CAPE, undergoing three months of preparation, participating in a five-day intensive workshop on campus from September 9-15, and receiving two months of post-workshop mentoring.

Topics covered in the program will include marketing, finance, operations, organizational dynamics, strategic planning and communication. At the end of the program,

participants will prepare a business plan that will be entered in a competition judged by a panel of experts that includes industry experts and financiers such as venture capitalists, angel investors, and bankers.

"The CAPE curriculum is designed to remove the barriers facing emerging entrepreneurs," Aguiar said. "Our goal is to help them develop and implement business plans that will contribute to the growth and well-being of the California economy."

Applicants are being sourced from a wide variety of entities, including current Santa Clara University students, alumni, and faculty, business incubators, other schools and universities, Chambers of Commerce,

the Small Business Association, banks, venture capitalists, and industry associations and clubs. CAPE has welcomed entrepreneurs from all industry segments and has a very diverse class with some very exciting new ventures.

"If this turns out as we hope," says Drew Starbird, dean of the business school, "we'll be able to harvest the ingenuity and enthusiasm of these entrepreneurs. By assisting 20 entrepreneurs launch 20 new businesses in 20 months, we're helping create jobs for Californians, and contributing to the state's return to prosperity." ▶



GROOMING THE NEXT GENERATION: Dan Aguiar, head of the Center for Innovation and Entrepreneurship, hopes to use Santa Clara's position in Silicon Valley to develop new businesses and jobs for California.

Junk Food and Junk Science

No Single Cause or Quick Fix for the Obesity Problem

In the past 20 years the percentage of Americans considered obese has nearly tripled, and media and celebrity interest has likewise grown. Since First Lady Michelle Obama made obesity a personal cause, the issue has been all over talk shows, magazine covers and op-ed pages.

While the increased attention is not a bad thing, Dr. Gregory A. Baker, director of the Food and Agribusiness Institute at the Leavey School of Business, says that too much of the focus is mistakenly being placed on one cause: the consumption of so-called junk food or fast food.

“The current generation of young Americans is increasingly overweight and will likely suffer from increased risk of many diseases including heart disease, type 2 diabetes, stroke, and certain types of cancer,” Baker says. “That should make us uncomfortable, but to say that it’s all because of junk food sounds very simplistic, and we think it is.”

Baker is co-author of a paper, “Of Junk Food and Junk Science,” that was published last year in *International Food and Agribusiness Management Review*. The paper looks at the obesity/junk food equation from a variety of perspectives and finds more passion and overstatement than good science.

For starters, there’s the question of defining “junk food,” something that hasn’t been done properly and that’s hard to do, given that nearly all food has some nutritional value. Nevertheless, Baker put together an index of companies that most would consider as producing primarily junk food. Using available sales figures for these companies he and a colleague compiled almost 20 years of data on per capita spending on junk food and compared it to reported obesity rates.

What they found with their statistical analysis was that the rise in obesity rates cannot be explained by junk food consumption. To take but one example, from 1996 to 2006,

obesity rates increased by 49 percent, yet per capita spending on “junk food” during that period increased by roughly two percent. That came as no surprise to Baker.

“What you’re eating at any given time does not determine your current weight,” he says. “Rather, your eating habits, combined with your exercise and other lifestyle choices will determine whether you’re gaining, losing, or maintaining weight. For example, someone who is obese could be dieting and exercising, and actually be in the process of losing weight.”

Given the unquestioned seriousness of the obesity problem, Baker would like to see a solid, public policy approach to dealing with it, but he takes a dim view of the idea that it can be addressed primarily by initiatives that take aim at junk food.

“This is not as simple as dealing with cigarettes, where you can tax them, restrict sales, and limit advertising,” he says. “Food is everywhere, and trying to regulate fast-food sales or tax sugary or fatty foods won’t solve the problem. It comes down to helping people make better choices, rather than regulating every place they buy food.”

In the paper, Baker developed an equation to determine whether a causal link exists between junk food and obesity. When the numbers were plugged in, the link didn’t materialize. He says his hope is that future research will carry the idea forward and attempt to come up with an equation that factors in all the possible causes of obesity, and which could lead to the development of sounder public policy.

“Our hope is that this paper will lead to future research that will address the complex connections between food choice, metabolism, physical activity and weight,” he says. “Quick fixes on issues as complicated as obesity are likely to be no more effective than fad diets.”



NOT JUST THE JUNK FOOD: Gregory A. Baker, director of the Food and Agribusiness Institute, has found that so-called junk food is not as large a factor in American obesity as the popular press would suggest.



FIGHTING HUNGER LOCALLY: Drew Starbird and a team of researchers from the Leavey School of Business have demonstrated the extent of hunger, even in prosperous Silicon Valley.

Closing the Food Gap Index Demonstrates the Extent of the Hunger Locally

Drew Starbird says he became aware of the Bay Area's hunger issues in a personal way when his children were going to public school and it became clear to him that some of their classmates were coming to school hungry.

"The kids who'd had breakfast had an advantage over those who didn't," he says, "and that didn't seem right. It drove home the reality that the people affected most by hunger are children."

Starbird, recently appointed Dean of Santa Clara University Leavey School of Business, acted on his concerns by serving two six-year terms on the board of directors of the Second Harvest Food Bank. In the course of that extensive volunteer effort, he spotted some shortcomings in the understanding of the extent of the problem and decided to do something about it.

Specifically, no one had really tried to measure the extent of the "food gap"—the difference between the amount of food needed by the hungry and the amount provided by the Food Bank and other relief agencies. To calculate that, Starbird worked with a team from the Food Bank and SCU to develop a Hunger Index, which is now being used in Santa Clara and San Mateo counties to measure the need for food assistance.

"It made clear what the Food Bank does and how big the problem really is," he says.

For 2008, the most recent year for which figures are available, the Index shows that Santa Clara County agencies provided 90 million meals, but that still left a shortfall of 147 million meals for people needing them. In San Mateo County the gap was even greater, with 23 million meals provided, but another 63 million meals needed.

"It's hard for people to see the problem because we're not in a famine situation," Starbird said. "It's more a matter of malnutrition leading to health problems, learning problems, and other social ills. A child could be missing three meals a week, but if those meals are breakfast before school, he or she is pretty much out of it for the rest of the day."

In order to calculate the index, Starbird and his team combined statistics from the U.S. Department of Commerce, the USDA, and other agencies to determine the need for food assistance. Calculating the supply of assistance proved to be more difficult because of the diversity of providers—food stamps, school lunch programs, Meals on Wheels, senior nutrition programs, church soup kitchens and the like—and because of the differences in the way providers keep records. Nevertheless, he says he feels "pretty confident" about the results.

Research on the Hunger Index is supported by Leavey's Food and Agribusiness Institute, which provided research assistants and economic and statistical assistance, as well as Starbird's time.

"This is the sort of community service work a business school and university should be doing," Starbird said. "We're uniquely qualified to make a contribution toward solving the problem through research and information, and, after all, people give money to the Food Bank so it can buy food, not do surveys."

Starbird believes the problem of hunger in the area can be solved. The amount of money it would take, \$400 million, is small change given the wealth in Silicon Valley. The more critical issue, he says, is providing the infrastructure to get the food to the right people at the right place at the right time.

"The recession has made people more aware of the problem, and they've stepped up and helped the Food Bank ramp up its services," Starbird says. "It's a question of will, and I just hope the will is there to solve the problem." ▶



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About the Food and Agribusiness Institute

Founded in 1973, the Food and Agribusiness Institute (FAI) at Santa Clara University is the Leavey School of Business' oldest academic institute. It currently serves over 30 MBA students who are interested in careers in food and agribusiness. Through excellence in education, scholarly research, and community outreach, FAI strives to advance an understanding of the global food industry and how to meet the current and future food needs of the world in an environmentally and socially responsible manner. This year, the FAI launched the Food, Hunger, Poverty, Environment undergraduate pathway.

"What we eat and how we produce food has implications for all of us and the environment we live in," says Gregory A. Baker, director of the Institute. "We

want our students to understand not only the business of producing food, but also important social and equity issues related to food production and distribution, both here and around the world." One of the ways the Institute does this is by sponsoring overseas immersion programs. For instance, last summer, Dr. Baker led a group of 12 students on a study tour of Ghana.

Speakers and educational programs are also sponsored by the FAI. Its "Food for Thought" speaker series brings in experts in the area of food, agribusiness and social and environmental responsibility.

Last fall, SCU alum Edward O'Malley ('78) spoke about the Mazar Food Initiative, a USAID-funded sustainable agriculture program in Northern

Afghanistan. Other speakers in the series included Karla Chambers, who has developed a biogas plant, the first of its kind in all of North America, on her 5,000 acre farm in Oregon, and Dr. Jack Gilbert, a beekeeper, chair of the chemistry and biochemistry department, and program director of research initiatives in the Center for Science, Technology and Society.

The "Business of" lecture series, was recently launched with "The Business of Berries" event featuring alumnus Joe Barsi (Executive MBA '07) of California Giant Berry Farms. The Institute also offers enrichment programs, including internships, mentorships, and field trips for both graduate and undergraduate students.