The Uncertainty of Financial Markets
BY ALLAN TIMMERMANN

Commentary
BY HARRY MARKOWITZ

Will the Bubble Burst on Dubai?
BY REX MOTES

Employee Ownership
BY EMILY MEYERTHOLEN

A Conversation with Ernest Rady
BY JULI IACUANIELLO
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Page</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>02</td>
<td>FROM THE EDITORS</td>
</tr>
<tr>
<td>03</td>
<td>RADY YEAR IN REVIEW</td>
</tr>
<tr>
<td>04</td>
<td>DEAN’S CORNER</td>
</tr>
</tbody>
</table>
| 06   | Will the Bubble Burst on Dubai?  
*By Rex Motes* |
| 11   | Employee Ownership  
Adapting a Powerful Business Strategy to Attract and Retain the Next Generation of Talent  
*By Emily Meyertholen* |
| 14   | The Uncertainty of Financial Markets  
*By Allan Timmermann* |
| 19   | Commentary on “The Uncertainty of Financial Markets”  
*By Harry Markowitz* |
| 21   | Marketing a Biotech Startup  
From the Classroom to the Field  
*By Anjali Kansagara and On Amir* |
| 25   | PERSPECTIVES  
A Conversation with Ernest Rady  
*By Juli Iacuaniello* |
| 28   | Abolishing Just-In-Time Marketing  
*By Richard Vogt and Tejaswini Ravindra* |
As recent MBA graduates, we both know first-hand the fresh and innovative voice that is prevalent at the Rady School of Management. We believe that this voice can add value to the business community, providing business leaders with insights to assist in the development of innovations in the marketplace. This journal will be a platform to allow this voice to be heard.

We have selected a group of articles that is timely and relevant, drawing upon the knowledge of the Rady School’s distinguished academics, industry practitioners and MBA candidates. In fact, Rady is filled with people at all levels that have specifically made the choice to be pioneers in lieu of taking the more established path. We feel that the journal will integrate this forward thinking with the fast-moving business world.

Creating the journal over the past year has been an entrepreneurial venture for both of us. Though we looked up into the face of massive competition on the business information landscape, we passionately built the journal from a whiteboard brainstorm in early December to final publication eight months later. Here in our inaugural issue, you will find articles that discuss the financial markets, the challenges facing growth firms and the translation of textbook knowledge into real-world practice.

This is a beginning. We hope the Rady Business Journal will grow to be respected worldwide for the values and intellectual capital that it will provide; and we hope that you, as our reader, will find this issue to be a great start toward that goal.
Rady Year In Review

Rady Recruits Professors from Ivy League and Other Top Universities

The Rady School's faculty hires for the 2007-2008 academic year included National Science Foundation and American Finance Association award winners, as well as others who have received numerous research and teaching honors. The new faculty were recruited from Ivy League universities such as Princeton University and the University of Pennsylvania. Other top schools represented include Massachusetts Institute of Technology, New York University, Stanford University and the University of Chicago.

UCSD First In Nation to Offer Concurrent Oceanography Ph.D. and MBA Degree

UC San Diego is home to the first concurrent degree program in the country to combine a Ph.D. in oceanography and an MBA. This collaboration between the Rady School of Management and the Scripps Institution of Oceanography enables students to pursue a Ph.D. at Scripps and an MBA at Rady in a coordinated, concurrent program. The concurrent Ph.D./MBA program was developed for students interested in careers where the combination of scientific expertise and management knowledge is particularly important.

BDRM Conference Puts Rady on the Research Map

The Behavioral Decision Research in Management Conference (BDRM), held April 24-26 at the Rady School of Management, attracted more than 200 scholars from all over the world. The biennial conference brought together the best of behavioral research. Seventeen of the top 20 business schools were represented, with attendees from 15 countries.

BDRM was a brand-building opportunity for the Rady School and laid the groundwork for future faculty recruiting. Highlights of the conference included a keynote address by Richard Thaler about his newly released book, “Nudge,” and a keynote by Ralph Keeling of the Scripps Institution of Oceanography on how decision research can help address climate change issues.

Rady FlexMBA Program Now in Evening Format

The Rady FlexMBA is now offered in two formats – the FlexWeekend and FlexEvening – to accommodate working professionals and their various roles and responsibilities. The FlexEvening MBA provides the same rigorous education, but without the commitment of regular time away from the workplace. Classes meet two evenings a week on campus and students typically complete their degrees in 30 months.
THE RADY SCHOOL IS A DIFFERENT SORT OF BUSINESS SCHOOL; ONE THAT LEVERSAGES THE STRENGTHS OF A TOP RESEARCH CAMPUS WHILE CONTRIBUTING TO THE TECHNOLOGY AND LIFE SCIENCE INDUSTRIES SO IMPORTANT TO THE REGION. INNOVATION AND DISCOVERY COMprise THE MAYPOLE OF ITS ACADEMIC PROGRAMS, AND IT IS COMMITTED TO EXCELLENCE IN EVERY ASPECT.
The Rady Business Journal represents another milestone for our new school. This is the first issue of a student inspired, community supported publication that serves as a forum for new ideas and relevant views on business and society. The Journal hopefully will inform and stimulate its readers with its topical, relevant content, and also will stretch the imagination to consider new possibilities in economics, management and innovation.

The Rady School of Management recently celebrated its fifth birthday, making it an infant in comparison to any top business school. This birthday provides a good opportunity to reflect back on the reasons our school was created. The Rady School of Management was created specifically with this challenge in mind. The school's founding tenet is that long-term sustainable competitive advantage can be achieved by investing in science, technology, engineering, mathematics – and management.

"THE SCHOOL'S FOUNDING TENET IS THAT LONG-TERM SUSTAINABLE COMPETITIVE ADVANTAGE CAN BE ACHIEVED BY INVESTING IN SCIENCE, TECHNOLOGY, ENGINEERING, MATHEMATICS – AND MANAGEMENT."

Rady School is a different sort of business school; one that leverages the strengths of a top research campus while contributing to the technology and life science industries so important to the region. Innovation and discovery comprise the maypole of its academic programs, and it is committed to excellence in every aspect. The Rady School's charge is to define and to continuously redefine the relevancy and impact of management education and scholarship.

During the past decade and more, business and management schools increasingly have come under attack by industry stakeholders, as well as by reputable business school scholars. Relevancy and impact have been called into question with several popular business publications challenging the value of business schools in terms of economic development and social responsibility. The Enron and Worldcom debacles of the past decade were, of course, headline grabbers. More recently, the failure of certain hedge funds and the instability of many financial institutions often have been placed at the foot of leadership and management and their incompetence and greed. Indirectly they are placed at the foot of the business schools that educate and inspire the leaders and managers. Yet, during prosperous economic times, little or no credit is given to the leaders and managers at the helm of the organizations experiencing successes. This is a challenging communications dilemma that business schools have inadequately addressed.

This dilemma is confounded by the passive indifference paid to business and management schools in their contribution to economic competitiveness. During recent years, increasing concern in the United States has been directed toward the insufficient investment in science, technology, engineering and mathematics (STEM) education. In fact, it is well understood that this problem threatens economic competitiveness, especially as other emerging nations increase the quality and quantity of their science and technology base. However, STEM investment and the resulting scientific breakthroughs are necessary, but not sufficient, conditions for economic prosperity. There must be recognition of the role of business education and leadership in helping to assess discovery and to take discovery to the world markets. Talented, socially responsible management and leadership are critical for competitive strategic advantage in our globally networked, technology driven economies. Top business and management schools explicitly attempt to address this need.

They enable scientific discovery to become technology innovation, and, in turn, to enter markets. They consequently mobilize, motivate and inspire individuals and organizations to do the extraordinary. They are absolutely essential for propelling economic growth and for promoting job creation. The Rady School will be known for the impact made through STEMM and the Rady Business Journal will be an additional venue to help make the case for this impact.

The Rady Business Journal is a marvelous forum for new ideas, especially those that challenge the mind. As I mentioned at the outset, the Journal is student inspired. Our community owes a special thanks to Jason Scharf ('08) and Saleem Van Groenou ('08) for their outstanding efforts that began with imagination and culminated with the first issue of the Rady Business Journal.

Dean Robert S. Sullivan joined the Rady School of Management as founding dean in 2003. Dr. Sullivan is an expert on entrepreneurship, knowledge management and operations management. Prior to his role at UC San Diego, Dr. Sullivan was dean of the Kenan-Flagler Business School of the University of North Carolina, Chapel Hill, and dean of the School of Industrial Administration at Carnegie Mellon University. Dr. Sullivan holds a doctoral degree in operations management from Pennsylvania State University, a master's degree in production management and quantitative methods from Cornell University and a bachelor's degree in mathematics from Boston College.
Although the original stimulus for Middle Eastern economic expansion is the huge revenue surplus from oil exports, more recently, billions of dollars in investor capital have been flowing into the United Arab Emirates (UAE) to further fuel the country’s economic boom. Some economists are predicting Dubai, UAE, to sustain eight consecutive years of 11 percent annual growth in real gross domestic product regardless of the global credit crunch. It is anticipated that the main driver for the surge in economic growth will be attributed to the non-oil sector, helping Dubai outpace growth rates of other Gulf Cooperation Council countries. In fact, foreign trade grew by 30 percent in 2007, not including oil. Approximately 80 percent of the residents are expatriates, and a large population of internationals continues to rush to Dubai as it establishes itself as an international financial center. Twenty thousand American citizens, along with Europeans, Russian oligarchs and wealthy Indians, tolerate censored media and mail surveillance in an effort to gain their share of rapid economic development rewards. The Rady School of Management is also active in the region via the Beyster Institute and its Middle East Entrepreneur Training program. With recent coverage by “60 Minutes” and National Public Radio bringing even more attention to the relevance and surge of Dubai as a financial hub, one must take note. Can the trend

WILL THE BUBBLE BURST ON DUBAI?

BY REX MOTES

Rex Motes (’08) graduated from the Rady School with a concentration in finance. His interests are in the energy sector, with recent work in algae-derived biofuels and gasification of municipal waste for renewable power. Before attending Rady, Rex developed enterprise business intelligence and data warehouse solutions.
of massive economic development be sustained in Dubai, or is there fragility in its economy that puts it at risk of financial crisis? It remains to be seen if the exuberance concerning Dubai is rational, and whether its assets are accurately valued or grossly overvalued. Global illiquidity alongside the rush of capital to Dubai raises yet more concern as investors re-allocate capital out of dry markets and into Dubai’s. Perhaps the Japanese banking crisis of the 1990s and the recent global credit crunch can provide insight to help evaluate current trends in Dubai.

Japan’s Banking Crisis of the 1990s

Japan’s troubles in the 1990s followed on the heels of tremendous optimism and economic growth in the 1980s. The 1980s marked a period of speculative excess in the Japanese stock and real estate markets, due largely to the deregulation of the Japanese financial system and the search for high-return investments. Deregulation created an environment that no longer favored the few government-ordained banks that became accustomed to guaranteed credit returns. All banks were therefore forced to compete with one another in order to win wealth-gaining assets and projects. This competition resulted in loans to higher-risk clients in an effort to earn the consummate returns and achieve banking industry leadership. Simultaneously, however, the increased competition and demand for borrowers depressed the return rates. Investments shifted from export-based sectors and into real estate development and nontraditional projects such as golf courses. These riskier clients then submitted the overvalued real estate assets and securities as collateral for the loans. This method, consistent with standard practice since World War II, in turn further drove up real estate prices. In fact, an article from the Columbia Business School claimed that "Japanese real estate prices in the leading cities became so overvalued that the value of the land on which the Japanese Emperor’s palace is situated became worth more on paper than the entire state of California." Equity assets held in Japan were also excessively overvalued. Japanese banks played a major role in inflating the stock prices by holding large amounts of stock in their main clients. When the bubble burst, the value of the real estate and equity collateral tumbled, and banks were no longer able to recover their loans. This led to bank failure and the spiral of market decline from which Japan is still recovering.

The Current U.S. and Global Credit Crisis

In September 2007, Mervyn King, Governor of the Bank of England, described the cause of the U.S. and global credit crisis in a letter to the Treasury Committee. In line with the common understanding of financial market experts, Mr. King explained that the source of turmoil is due to illiquidity resulting from a misunderstanding and mis-pricing of risks in the financial system. The primary instruments at fault for instigating the crisis were securitized sub-prime mortgage loans sold to investment vehicles in the form of structured credit. With credit ratings on the instruments from recognized rating agencies such as Moody’s, investors felt secure in investing into what they believed was a stable asset class. As a means to finance the purchase of the structured credit instruments, investors issued short-term commercial paper. In essence, investors were taking positions typical to that of banks: they borrowed short to lend long. The huge positions by both banks and investors in structured credit instruments created an illiquid market as uncertainties about the quality of credit in the instruments began to spread and owners sought to rapidly unwind their positions. Demand for such instruments waned while supply steadily increased. To make matters worse, just as the market dried up, many banks were in the process of securitizing pools of their issued loans in preparation to sell them on the market. This created an even greater crisis, as the illiquid and overvalued assets led some banks to struggle in meeting capital requirements. Banks subsequently cut their lending in an attempt to relieve the pressure. Similar to Japan in the 1990s, severe miscalculation of risk, an overly liquid market and large-scale investment in risky assets was countered by illiquidity, bank failure and a full-fledged financial crisis.

Dubai Today

Dubai is looking to diversify the source of its financial wealth away from oil as it contemplates its post-oil future. The effort to transform itself into a center for tourism and a financial hub is in response to Dubai’s expectation that it will run out of oil within the next few decades. A small land mass of 1,500 square miles erected from the desert, there are no natural treasures like the Grand Canyon, Niagara Falls, or the Alps. Arid land and temperatures in excess of 120 degrees Fahrenheit are hardly enough to draw in the tourism levels capable of sustaining an economy. Nor does Dubai have a manufacturing-based, export-centric economy on which to rely, aside from
its declining oil natural resource. What Dubai does have is capital to invest globally and in the re-creation of its identity, and a geographic location favorable to integrate Western and Eastern commerce. By leveraging its location, Dubai not only facilitates commerce but also provides a range of tailored financial instruments that are desirable to broad demographics. It follows that the chosen remedy is international investment, investment in premium real estate development and incentive provisions to companies that conduct business based in Dubai. Immense construction projects and the rise of its markets indicate the efforts are indeed attracting investment.

For global investments, the past few years have marked Dubai spending billions of dollars in acquisitions and holdings through its government-owned holding company, Dubai World. Examples of Dubai using its sovereign wealth for a global presence includes investments in the cruise ship Queen Elizabeth 2, in luxury retailer Barney’s and a minority stake in the MGM Mirage hotel and gaming enterprise. Dubai World was able to close the deal with MGM Mirage using $5 billion in cash, a signal that liquidity is a non-issue. In addition, Dubai has considered acquiring troubled U.S. banks through its Dubai International Finance Center Investments branch. Dubai Bourse is also in on the mix, having worked with Nasdaq on an intricate deal to buy the Nordic OMX Exchange group.

Construction in Dubai is monumental. One of every five construction cranes in the world is in Dubai. It’s already the home of man-made islands, such as the Palm Islands Dubai, populated by multi-million dollar beachfront homes. Al Nakheel Properties, the state-owned company that is responsible for the Palm Islands, recently completed construction on a set of man-made islands in the shape of the world’s continents and has begun a project to build islands in shapes of planets and galaxies. Another area of Dubai is dubbed by some as “the largest construction site on earth,” collectively employing a half million laborers working 12-hour shifts on a reported $300 billion worth of projects. For recreation, Dubai couples its man-made beaches with the world’s tallest indoor ski slope on the site of one of its shopping malls.

Dubai has also created conditions favorable for commerce in an effort to encourage foreign investment. The tax-free zones have attracted more than 2,000 companies from over 70 countries looking to take advantage of the enabling infrastructure. To put it in perspective, the following is a list of the incentives in the tax-free zones offered by the government of Dubai:

- 100 percent foreign ownership.
- Exemption from all import duties.
- 100 percent repatriation of capital and profits.
- Freedom from corporate taxation, as applied throughout Dubai, with the added bonus of a renewable 15-year guarantee in the tax-free zone.
- Abundant, inexpensive energy.
- Simple and efficient recruitment procedures ensuring the availability of a competitively skilled and experienced workforce.
- A high level of administrative support from the tax-free zone authorities.
Notable companies that have taken advantage of the incentives include Sony, IBM and, not surprisingly, the oil company with Dick Cheney in its lineage, Halliburton.

**Is Dubai Susceptible to Crisis?**

In forming an opinion on whether Dubai is susceptible to similar crises as those exemplified in 1990s Japan and in the current global credit crunch, one can look at the respective historic events leading to each crisis. In doing so, one might raise concern regarding the exuberance in Dubai and real estate value speculation, inflation and the effects of the global credit crunch on Islamic financial markets. A major issue adding to the difficulty in discerning fact from speculation is the lack of transparency on behalf of the Government of Dubai and the UAE. Transparency issues make it difficult to determine if the sheikdom can withstand a dramatic financial downturn. For example, it’s unclear if Dubai would be able to inject the capital needed to stabilize the market in the event of a downturn caused by illiquidity. Nonetheless, one can look at evidence in some of the aforementioned indicators.

According to a February 2008 survey issued by ArabianBusiness.com, almost half of the respondents suspect that Dubai’s real estate market is a “bubble waiting to burst.” An additional 25 percent of the respondents believe the market is “obviously going to decline.” In addition to the surveys, some homeowners are claiming notoriously poor quality. One example describes water pouring in when it rains. The famous Palm Islands Dubai are also receiving attention. The news magazine “60 Minutes” visited the islands one month after the official opening in 2007 and reported that the island resembled a ghost town, despite houses that initially sold for $1 million being resold on the market for $5 million. The dramatic rise in value within such a short time period may not be justified, raising suspicion of irrational exuberance.

In terms of inflation, the UAE Central Bank reported that the money supply increased by 36.7 percent in 2007. The dramatic increase in excess money supply lends further support to inflationary concerns. The International Monetary Fund recently revised estimates of Dubai’s 2007 inflation rate from 8 percent to approximately 11 percent, compared to the U.S. 2007 inflation rate of below 3 percent. Regional head of research at Standard Chartered Bank, Marios Maratheftis, claims that the growth in the UAE’s money supply is both “excessive and alarming.”

Debt levels and the effect of the global credit crunch are also raising concerns about Dubai. According to Chip Cummins’ December 2007 article in the “Wall Street Journal,” Dubai’s debt levels are four times the average of other Persian
Gulf states, and credit rating companies are asking for more information to aid in determining how sound the government’s fundamentals really are. Recent declines in Dubai’s Financial Market Index may also gain attention. This news, combined with recent price movements in the Dubai 2009 Sukuk (sukuk describes shari’a-compliant bonds) and a widening spread over LIBOR could be an indication that Dubai’s market is feeling the effects of the global credit crunch.

Although the provided examples could serve as early indicators of future financial troubles for Dubai, there also exist counterexamples and explanations to dispel the concerns. For example, the demand for real estate in Dubai is still booming. With such high demand, rent prices are driven up but consistently capped by Dubai’s policy to allow only a 5 percent increase. Also, the currency in Dubai, the UAE Dirham (AED), is pegged to the U.S. dollar. The weakening dollar, the demand for real estate and the increase in the price of oil all help explain the rise in inflation. Banking appears to be strong in Dubai, as well. In January 2008, the Noor Islamic Bank was launched with an initial capital of $1 billion. Consistent with Dubai’s strategy to invest sovereign wealth, ownership in Noor Islamic Bank is 25 percent by the government and 25 percent by the ruler, Sheikh Mohammed bin Rashid al-Maktoum. As for credit, the UAE’s largest Islamic lender is Dubai Islamic Credit, with a market capitalization of $9 billion. Last year also marked tremendous growth in the selling of sukuks. Bloomberg data indicates that sukuks sales jumped from $18 billion in 2006 to $30.8 billion in 2007.

The fact remains that it is difficult to predict crises even if some metrics hint at one. The lack of transparency on behalf of government makes predicting a crisis an even more daunting task. Certainly, past crises such as Mexico 1982, Mexico 1994, Asia in 1997-1998, Russia in 1998 and Argentina in 2001, can help analysts understand the causes ex post. Japan’s banking crisis of the 1990s and the current global credit crunch assist in that understanding, as well. Ex ante, however, even the most skilled financial analysts can misread the indicators as exhibited by Bear Stearns’ troubles. To add even more complexity, globalization and the world’s integrated economies send shockwaves throughout a domestic economy, even if the fundamentals of the domestic economy appear sound. Is crisis going to follow on the heels of tremendous optimism as it did in Japan? Could Dubai be the next in a series of economies struck by the global credit crunch? Only time will tell if Dubai’s economic business plan will prove robust or fragile.

REFERENCES
2 Ibid.
3 http://marketplace.publicradio.org/display/web/2008/03/07/meanw_money_americans_in_dubai/
4 Ibid.
5 2003, Peter Epsig, Columbia Business School, “The Demise of a Banking Dinosaur, Long-Term Credit Bank
6 2000, HBS case, “The Japanese Financial Crisis and the Long-Term Credit Bank of Japan
7 See note 5 above.
8 See note 6 above.
10 http://marketplace.publicradio.org/display/web/2008/03/12/meanw_pm3_sustainable_islam/
11 http://www2.nysun.com/article/66853
13 See note 3 above.
15 http://www.shelteroffshore.com/index.php/offshore /more/dubai_free_zones/
16 http://www.dubaitourism.ae/Business/default.asp? SubCatID=14
17 http://www.arabianbusiness.com/510305
18 http://marketplace.publicradio.org/display/web/2008/03/07/meanw_money_the_dream_of_dubai/
20 http://www.zawya.com/Story.cfm/sidGN_26032008_10200386
21 http://online.wsj.com/article /SB119759841193228627.html
22 http://www.dfm.ae
25 See note 23 above.
Sharing company ownership with employees – whether it’s intended to motivate, to retain or simply to share the wealth – can significantly impact a company’s success. Studies have shown that employee-owned companies boast faster growth, are more resilient in economic downturns and enjoy a competitive advantage over conventional rivals.

Why? According to the Harvard Business School Press book “Equity: Why Employee Ownership is Good for Business,” it is because effective employee ownership programs radically change the basis for collaboration between employees and managers and foster commitment to a whole new level of success for the business. Nearly 80 percent of the corporations on Fortune’s “100 Best Companies to Work For” offer some form of broad-based employee ownership, whether through employee stock ownership plans (ESOPs), stock options, stock purchase plans or profit-sharing. Employee-owned companies include everything from homebuilders to research and technology ventures, manufacturers to grocery stores and just about every other industry in between.

Emily Meyertholen is a marketing communications specialist for the Beyster Institute at the Rady School of Management. She is responsible for the institute’s public relations and program development. Prior to joining Rady, Emily worked in nonprofit public relations, event planning and the media.
As we approach the imminent shortage of talent predicted by the management consulting firm McKinsey & Company in the study “The War for Talent,” could the prospect of ownership become a critical factor in attracting tomorrow’s best and brightest? Could it be the magic bullet that prompts A-players to fully commit their valuable skills to the success of the company? Could it even convince them to stay? The answer is no, not unless employee-owned companies modify employee ownership to appeal to the next generation.

Companies have created many different ways to unleash employee ownership’s capacity to increase productivity and loyalty and develop a team of driven employee-owners. Research has shown that what really makes it work is offering enough ownership to have a significant impact on employees’ financial future, helping people feel and think like the owners they are, and creating a shared understanding of the company’s performance and a common commitment to enhancing it. Building upon these established tactics, modifications will need to be made to attract the next generation of workers whose priorities and lifestyles are very different than those of their parents.

Eleven years ago when the original “The War for Talent” study was conducted, the authors asserted that U.S. companies would struggle with a severe and worsening shortage of executive talent for decades to come. It determined that the most important corporate resource over the next 20 years will be talent: smart and savvy leaders for management and executive positions. With competition becoming more global, capital more abundant, ideas being developed quickly and cheaply, and workers willing to change jobs often, experts predict that talent is the only thing that will really matter.

The authors of the study also stressed that while talent becomes more important, its supply will decrease. In 15 years, there will be about 15 percent fewer 35- to 45-year-olds in the United States, while the economy is expected to grow by three to four percent per year. These numbers, along with the changing business environment, caused the authors to foresee an imminent talent war. They recommended making talent a priority at all levels, creating reasons for top talent to come, revamping recruiting strategies, creating development opportunities, and identifying and investing in A-players. Despite its potential impact, few companies promptly acted on the study’s advice. An update of the study supported the prediction that the war for talent was indeed intensifying, and that companies that heeded the study’s advice and focused on managing talent delivered far better bottom-line results, outperforming their industries’ means by 22 percent.

To develop a company culture that will attract tomorrow’s leaders, we must understand what the workforce wants. The “greatest generation” wanted careers that provided tangible symbols of loyalty, like a good pension; the baby boomers want personal appreciation; and Generation X is more concerned with having free time. The “Millennials” (born between 1979 and 1997) now entering the workforce are educated, ethnically diverse, technologically advanced and very collaborative. They grew up in the midst of economic uncertainty, war, terrorism, globalization and corporate scandal. They’ve seen their elders’ loyalty go unrewarded as a result of downsizing and are therefore wary of any assurances of financial security. They generally have close relationships with their parents and very high self-esteem. In a career, they want acknowledgement of their credibility, team-oriented work, and close contact with their supervisors. Like Generation X before them, they view their career direction as a work in progress and change jobs much more frequently than their parents and grandparents did.

Employee-owned companies are uniquely positioned to provide an environment in which the next generation of workers can thrive. They are more team-oriented than traditional companies, communication is a priority and ownership offers employees the prospect of significant financial rewards. However, the current setup of most ownership programs simply doesn’t mesh with the Millennials’ values and career goals.

Employee-owned companies often require new hires to work a minimum number of hours before being given ownership shares. Sometimes employees must be 21 before that time begins to accrue, and there may be a long delay before new hires receive information that shows their ownership interest. By the time the benefit of ownership becomes apparent, many Millennials may already be considering other career opportunities or regretting that they had turned down opportunities that may have resulted in more immediate financial gain.

The fact that shares are often allocated based on compensation and sometimes tenure can be a discouragement to high-performing young employees. On top of that, many employee ownership programs that are structured as retirement plans require employees to spend decades with the company before they have the option to cash in their shares.

Those terms may not have posed a problem for previous generations, but from a Millennial’s perspective, employee ownership will most likely add very little to what’s on the table. They might consider the benefits of ownership as too focused on the long-term and too unpredictable, but it

“LIKE GENERATION X BEFORE THEM, THEY VIEW THEIR CAREER DIRECTION AS A WORK IN PROGRESS AND CHANGE JOBS MUCH MORE FREQUENTLY THAN THEIR PARENTS AND GRANDPARENTS DID.”
doesn’t have to be that way. Getting creative with plan design, enhancing employee-owner education and encouraging more involvement can help make the employee ownership business strategy even more powerful in the next generation.

To start, employee-owned companies can eliminate their minimum-age requirement for ownership, shorten the hours of service required before allowing participation in the ownership program and offer early program entry dates. Shortening vesting schedules and permitting early diversification would make retirement-based ownership programs more transferable. Adding non-retirement-based ownership programs would allow younger employees to take advantage of the short-term benefits of ownership if they so chose. By making the above modifications to an employee ownership program, employees can think about their ownership as more portable and more accessible.

Although these practices are not yet widespread, some employee-owned companies – especially those with many young employees – have already felt the need for these kinds of changes and have proven that an updated program is achievable. They’ve decided that any issues of “fairness” among veteran employees aren’t worth sacrificing the continued success of their employee ownership program, as well as the success of the company, which is so closely tied to its ownership culture.

Educating employee-owners about the company’s finances and operations is an important part of making any ownership program effective, but in the next generation, that education also needs to include more guidance on planning for the future. Employee-owned companies can eliminate the mystery of their annual stock valuation by sharing a summarized version of the actual valuation report and building a sense of shared responsibility for that value. The company can also put ownership into context by providing details such as the stock price history and average account balance growth right in the employees’ annual statements.

Employee-owned companies have much to offer the Millennials over traditional companies: a high level of employee input, more access to information, the opportunity to make a difference, celebration, recognition, participa-

“IF NEW HIRES ARE QUICKLY INTEGRATED INTO AN OWNERSHIP CULTURE WHICH IS INVIGORATING AND REWARDING, IT COULD BREAK THE CYCLE OF SHORT-TERM EMPLOYMENT.”

tion, social justice and a stake in the outcome. If new hires are quickly integrated into an ownership culture which is invigorating and rewarding, it could break the cycle of short-term employment. When tomorrow’s workers feel valued and respected as real partners in the business, it could trigger the level of commitment and performance that we are told will define the next generation of successful companies.

REFERENCES


The Beyster Institute at the Rady School of Management is dedicated to advancing the roles of entrepreneurship and employee ownership in building stronger, higher-performing organizations and economies worldwide.

The institute is nationally recognized as a leader in the field of employee ownership, contributing its expertise through research, publications and strategic consulting services. The Beyster Institute presents employee ownership outreach and development programs on-site and online, and partners with the National Center for Employee Ownership to present the national Employee Ownership Conference. The institute integrates employee ownership into the Rady School of Management curriculum by offering the first-ever MBA employee ownership course.

The institute’s international entrepreneurship programs develop leaders of business and civil-society organizations. Training is focused on experiential, peer-to-peer learning, and includes virtual and real-time information sharing, opportunities for collaboration and continuous learning through alumni networks. The institute also offers expertise in developing and managing centers for entrepreneurship, designing exchange programs and training educators in innovative methods of entrepreneurship instruction.

The Beyster Institute serves as the key center for entrepreneurial thought and activity at the Rady School of Management and is the only such university-based center to integrate employee ownership and entrepreneurship. Its offices are located in La Jolla, California, and Washington, D.C.
The extraordinarily high daily fluctuations in equity prices experienced during the beginning of 2008 took many investors by surprise. Financial turbulence was swift, widespread and persistent as it continued to influence equity markets for several days. Swings in equity prices of more than five percent per day occurred in many countries, even in well-established markets that had not seen such high levels of short-term volatility since September 2001.
Equity markets were not the only ones to be affected. An accompanying “flight to quality” saw prices on government bonds bid up as increasingly risk-averse investors sought greater levels of safety. Options markets also experienced ripples from the high levels of uncertainty. On January 22, the Chicago Board Options Exchange’s volatility index (VIX), which provides a measure of the market’s view of short-term stock price volatility, closed above 31 percent, having finished 2007 near 20 percent. In the view of options traders, volatility levels had thus increased by 50 percent over less than three weeks.

In common with previous periods of financial turbulence, the current period has experienced a breakdown in the correlation patterns observed during more normal times. In fact, correlation tends to become much stronger during large declines in asset markets, causing gains from diversification to become less reliable and more difficult to predict. Risk managers’ jobs become twice as hard during such periods due to the changing correlation patterns that are hard to track in real time, let alone predict ahead of time. Add to the changing correlation patterns the use of considerable leverage and you have a recipe for trouble among hedge funds in particular.

What were the causes of these distinct oscillations in global asset prices? It is natural to first look for news that perturbed the markets. Bear in mind, however, that what moves stock prices is often a puzzle. For example, no plausible news story has been identified as the reason for the dramatic 20 percent decline seen in U.S. stock prices during a single day on October 19, 1987. Don’t envy the journalists that have to explain market moves even when no specific sources can be identified. Market sentiments and support and resistance levels are often used as heuristics for price movements on such occasions.

Indeed, it is hard to find specific news that justifies the sharp deterioration in prices experienced during January 2008. As far as one of the chief culprits is concerned, namely the subprime debt crisis, even worse news arrived during the fall of 2007 without the same sudden impact on stock prices.
Another puzzle is this: although a large part of the price movements were attributed to uncertainty about the U.S. economy, on many days stock prices in some European and Asian markets were more volatile than those in the United States.

To explain the recent jitters in stock prices, shifts in investor confidence have to be considered. Investors’ reassessment of the significance of the financial sector’s exposure to subprime debt, declining real estate prices and the slowdown in economic growth seem to have had a composite effect. One could make the point that stock markets downplayed the subprime news in August and September of 2007, under the expectation that financial problems would not affect the broader economy. Only now are the risks becoming more transparent and thus we see a stronger reaction among investors.

One source of uncertainty that is less often discussed is the possibility that financial difficulties in one sector cause an asset sell-off that affects a much wider group of investors. This is one plausible reason for the dramatic losses experienced by so-called quantitative investment funds which shared a similar exposure to the unusual patterns in stock prices observed in August 2007.

A defining characteristic of the current financial crisis is that credit and liquidity have dried up to an unusual extent, as reflected in the sudden wide spreads between yields on highly rated corporate bonds and T-bills. Faced with the possibility of large margin calls as a result of volatile price movements, investors are becoming much more conservative in their choices of what are considered safe assets.

Prompted by an increasingly cloudy economic outlook, the Federal Reserve and U.S. policy makers have taken determined actions. The effectiveness of these monetary and fiscal policy initiatives remains to be seen. A cut in short-term interest rates generally takes several months to have an impact on the economy. This makes the Federal Reserve’s decision to cut the Fed fund’s rate by 0.75 percent on January 21 especially surprising, since an interest rate cut was widely expected the following week. The decline in stock prices is likely to have played a role in the Fed’s decision to make such a sizeable interest rate cut, although the fear of a full-blown credit crunch is likely to have weighed even more heavily on the Fed’s mind. Fiscal stimuli may have a more direct, but comparatively short-term effect.

These policy actions do not come without costs. The U.S. government is already running a large budget deficit. More accommodating monetary policy runs the danger of “moral hazard,” i.e. of rewarding those individuals and institutions that took excessive risks when real estate prices were rising and credit was easy to obtain, by accepting too low risk premia. If stock market investors expect that interest rate cuts will be made in the case of sharp declines in stock prices, it could bring about inflationary asset prices.

“ONE SOURCE OF UNCERTAINTY THAT IS LESS OFTEN DISCUSSED IS THE POSSIBILITY THAT FINANCIAL DIFFICULTIES IN ONE SECTOR CAUSE AN ASSET SELL-OFF THAT AFFECTS A MUCH WIDER GROUP OF INVESTORS.”
Going forward, several points are worth making. First, it seems likely that uncertain outcomes in the financial markets will remain for some time. The consequences of the U.S. subprime crisis continue to unfold, and doubts remain about the eventual size of the asset write-downs endured by U.S. and international financial institutions. The lack of transparency about the true risk exposures of financial institutions is causing a drag on the liquidity and lending activity throughout the economy, and will take some time to clear up. Add to this the slowdown in the U.S. housing sector and the weakening growth rate of the economy and it is easy to understand why financial markets are worried and large price oscillations have become so common.

Many indicators suggest that the U.S. economy is currently in a recession. Bear in mind, however, that the average length of U.S. post-war recessions is less than a year. Recession risk is less of an issue, in fact, than the dangers of a sustained credit crunch, which could curtail banks’ willingness to lend money for a long period. If the spillover from the financial markets can be contained, the economy is likely to return fairly soon to its trajectory of robust growth.

The following observations amplify Professor Timmermann’s recent article.

(1) Financial economists frequently do not have explanations, but sometimes have fairly good hypotheses: good in the sense that they fit both the micro-observations of what market players are doing and the macro-observations of what is going on at a market-wide or economy-wide level. The so-called “market break” of October 19, 1987 is an example. At that time Leyland, O’Brien and Rubenstein (LOR) and other vendors were selling “portfolio insurance.” (This is to be distinguished from “portfolio theory,” a.k.a. modern portfolio theory, or MPT, which is quite another matter.) Portfolio insurance had participants buy when the market was rising and sell when the market was falling. This positive reinforcement of stock market swings were highly destabilizing. On the Friday before Black Monday, the Dow fell about 100 points, a hefty fall given the Dow level at that time. The Presidential Report issued later says that portfolio insurers were supposed to sell on Monday $10 billion of their $90 billion “insured” positions. By the time Black Monday was over, they had succeeded in selling $5 billion – and the market was in shambles. (This view of the Presidential Report was confirmed theoretically by a simulation analysis published by Gew Rae Kim and me that showed how destabilizing a relative few portfolio insurers can be.)

Portfolio insurance not only proved to be unhealthy for the market, but also extremely unprofitable for its participants. Between rapid action by the Federal Reserve the next day, and the realization by portfolio insurance’s institutional participants that they would have done much better if they had chosen a reasonable portfolio from portfolio theory’s risk-return tradeoff and stuck to it, portfolio insurance rapidly faded in popularity, the market volatility which it promoted subsided and 10/19/87 became a distant historical event.

(2) Portfolio insurance was based on option pricing theory, which typically assumes continuous liquid markets. On Black Monday, the markets turned out to be anything but continuous and liquid. But 10/19/87 was not the last time that this continuity assumption of option pricing theory failed those who took it too literally. Specifically, Long Term Capital Management (LTCM) – that included Robert Merton and Myron Scholes, recipients of Nobel Prizes for their work in option pricing theory – went broke because (a) they were extremely leveraged, and (b) when push came to shove, there was no immediate market for the stuff they needed to sell to reduce their highly leveraged position.
So what does option pricing theory and its assumption of continuous markets have to do with the current financial crisis? Option pricing theory is the principal tool used by “financial engineers” (again, no relationship to MPT-ers), to create new financial instruments from old, lately by slicing and dicing things like mortgage pools into tranches (French for slices, roughly) which now even divvy-up flows from other tranches until nobody has a clue as to who has the bad paper. The Fed has treated the banking crisis as if were a liquidity crisis. It has inflated the currency until oil costs nearly $150 a barrel, gasoline is over four dollars a gallon, and corn and wheat are out of sight. And we still have a crisis. As Allan Timmermann noted, and as Milton Friedman used to say, the Fed is almost always off with its timing. I personally think there is merit in Friedman’s view that we would be better off without a Fed, that is, without a fine-tuning, decision-making Fed. Just set modest inflation goals, like 3 percent per year, and stick to it – whatever. Those who try to set their price or wage goals above that would soon become underutilized. Inflation expectations would take care of themselves.

But what about those who suffered from this “information crisis,” including its indirect effects like nobody wanting to lend – even when they have money – because they don’t know who has the bad paper? Concerning those who leverage greedily: tough! Those who bought second homes at little or nothing down and now find their second home “under water?” Walk away from your mortgage. The system sold you a free put, so put it to it. What about the ignorant folk (including more-schooled ignorant folk as well as less-schooled ignorant folk), who were talked in a really bad deal. I’m truly sorry. If fraud was involved, the perpetrators should be prosecuted. Other than that, next time please recall: There’s no free lunch; If it’s too good to be true, it’s probably not true; You would be wise to buy and hold a diversified portfolio including bonds as well as stocks (the latter via an index fund or Exchange Traded Fund, or ETF); and, most important of all, remember there are sharks out there whose motto is, “There’s a sucker born every minute.”

“JUST SET MODEST INFLATION GOALS, LIKE 3 PERCENT PER YEAR, AND STICK TO IT...THOSE WHO TRY TO SET THEIR PRICE OR WAGE GOALS ABOVE THAT WOULD SOON BECOME UNDERUTILIZED.”
The marketing budget is a key driver of how one's marketing plan is implemented. The strategies and tactics defined in a marketing plan determine how the funds will be allocated to bring that plan to reality. While some things are absolutely not negotiable, there are other elements of a marketing budget that can be negotiated and, if executed strategically, can help you maximize your marketing dollars. The goal of this article is to provide a framework for ascertaining the next steps once a marketing plan has been thought through and a budget has been approved. In a rigorous MBA program or a series of intense marketing courses, you may have learned the key frameworks of marketing – sometimes referred to as the 3C (company, customer, competition) or 4P (product, price, place, promotion) analysis and the importance of a positioning statement. What

MARKETING A BIOTECH STARTUP
From the Classroom to the Field
BY ANJALI KANSAGARA AND ON AMIR

The marketing budget is a key driver of how one’s marketing plan is implemented. The strategies and tactics defined in a marketing plan determine how the funds will be allocated to bring that plan to reality. While some things are absolutely not negotiable, there are other elements of a marketing budget that can be negotiated and, if executed strategically, can help you maximize your marketing dollars. The goal of this article is to provide a framework for ascertaining the next steps once a marketing plan has been thought through and a budget has been approved. In a rigorous MBA program or a series of intense marketing courses, you may have learned the key frameworks of marketing – sometimes referred to as the 3C (company, customer, competition) or 4P (product, price, place, promotion) analysis and the importance of a positioning statement. What

Anjali Kansagara (’07) is a marketing professional at a San Diego biotech startup. In her dual-role managing software and hardware product marketing and marketing communications, she makes strategic and tactical decisions on corporate communications and advertising. Anjali brings a well-rounded perspective on the application of classroom concepts in the field.

Dr. On Amir is an assistant professor of marketing at the Rady School. He received his Ph.D. in management science and marketing from MIT’s Sloan School of Management. Dr. Amir has held three fellowships and has received several research awards for his work on consumer choice and reasoning. Prior to coming to the Rady School, he was an assistant professor of marketing at Yale.
you may not have learned is how to operationalize the marketing plan, and the strategies involved in optimizing the marketing dollars in the process. We aim to open this discussion here, and carry it further in an interactive online blog open to the Rady community, where we can harness the collective wisdom of Rady professionals.

Back to Basics

Assuming that you are indeed a marketing professional in a startup environment with limited time, money and human resources, you may not have the means to write a formal marketing plan. However, it is imperative to conduct the 3C and 4P analysis. With the first framework, you are essentially aiming to understand (1) the capabilities of your own company and the product or products that you wish to bring to the market based on your company’s core competencies, (2) the needs and wants of your customers, and (3) the competition, what is already out there and what may be missing. By understanding these three C’s, you will be more successful in bringing the right product to the market.

The 4P analysis focuses specifically on the product. The first P is for product, and defines the features and benefits of the product. The second P is very important, but often underestimated or misjudged in the startup environment – and that is pricing. Typically, with lack of historical data and/or funds for a thorough pricing study, products are often mispriced on the low side. The third P stands for place and refers to the channels of distribution. Will the product be sold directly, or via a distribution network? The most important question to ask when setting up product distribution is: Will there be channel conflict? Finally, promotion – also known as marketing communications strategy – focuses on such issues as: how to get word out about your product, and where to advertise, to whom, in what medium, etc. The combination of these two frameworks is the “positioning statement,” which clearly states the purpose of your product(s) to your target customer/audience.

The Marketing Budget

It is not our goal to suggest how you should divide your marketing dollars, for each company may have a unique set of goals that drive the marketing budget. For example, depending on a company’s life cycle, one company may be focused on laying down its marketing infrastructure while another may be focused on customer and/or channel acquisition, and yet another may be ramping up its communications. However, it is worth mentioning that it is important to put the budget within the context of a bigger picture and leave room for revisions. The ultimate goal of marketing, especially in a startup environment, is to support the sales team and drive sales for top-line growth. Just as the small size of a startup allows it to be nimble and make rapid course corrections, a marketing budget should also be nimble and responsive to overall changes in a company’s strategy. This responsiveness can take many forms. One example is in advertising and conference booking: don’t commit all of your marketing dollars too early. It’s prudent to plan ahead, but keep the dollars liquid by making advertising space reservations or booking only key conferences where your company must have a presence.
Operationalizing Marketing

As we previously mentioned, we plan to begin the conversation here and carry it forward in an interactive forum via an online marketing blog. The significance of marketing operations is often minimized and reduced to being considered as mere execution of tactics. However, in reality, a well-thought-out, strategic approach to implementing the tactics can make the difference between a successful startup and one that’s barely hanging on. Our goal is to fill in the knowledge gap between marketing theory in the classroom and applied marketing in the field through our discussions on specific components of marketing operations. A few topics of discussion include implementation strategies for the advertising plan, understanding biotech advertising and the various available options, navigating through the life science conference jungle, marketing materials for the biotech startup, marketing coordination and logistics tips, tradeshow booking and related communications strategy. Although the example discussed herein is specific to biotech startups, this approach can conceivably be applied to other industries and organizations.

We will begin our discussions with biotech advertising. Advertising is a major component of any reasonable marketing communications plan and budget. How the funds are spent has a direct influence on marketing’s overall goals and effectiveness. While there is much written about general consumer products advertising, not much can be found about biotech or life science product advertising in a startup environment. Simply having the knowledge to ask the right questions is enough to get most marketers on the path to success. In this regard, we ask: How does one navigate the maze of the biotech ad world, especially with a limited budget, limited human resources and limited time, all the while competing with the “big fish?” Many looming questions may come to mind, such as whether to hire an agency or go direct, comparing print and online communication strategies, and so forth. But often the most crucial question is, simply, where to start? Where’s the best place to begin if you’re completely new to marketing management? We hope to provide you with a few tangible tools that will allow you to take immediate action on your advertising strategy as a marketing professional in a biotech startup.

As you sit down at your new desk, you will probably face several pressing decisions. You may need to place an ad in a journal, assess an online communication strategy or even decide what type of communication should go out next. Let’s first explore these micro-decisions, and then zoom out and look at the bigger picture. Assuming that you plan to advertise in a life science journal, the first step is to review the advertising kit of each journal you intend to advertise in. The advertising kit is usually accessible online at the journal Web site and includes data on the target audience, distribution, advertising rates, frequency, ad specifications, etc.

In the vast life science world, it’s easy to become lost in the numerous venues available. How do you decide which journal to advertise in? Should you go with a top-tier journal, a tabloid or a targeted journal with a smaller distribution? Furthermore, you have several advertising options available under the guise of what are called application notes, tech notes, corporate profiles, protocols, case studies or product/supplier showcases. And, of course, each has a price tag. First off, determining which journal to advertise in may, in part, be dictated by which conference or tradeshow your company is committed to attending. Typically, each one will have a conference publication that is officially sponsored by the conference organizers or the society which organizes the conference. Perhaps the impact factor of advertising on the outside back cover (OBC) of a top-tier journal that will also be distributed at the show may be significant to your company’s product launch and may be worth the premium position price tag.

A second key decision is whether to advertise in print, or online or both. Even with all the sophisticated technology available that tracks online users to better and more accurately calculate the return on investment, it seems that the strictly online option may not reap the rewards and results that one might expect, especially in the biotech world. However, it is quite difficult to calculate the ROI for a print ad, even with creative tracking strategies such as call to action via a Web site landing page. The jury is still out on whether print ads trump those online, or vice versa. However, it’s definitely easier to track the ROI for online ads.

The third important decision concerns the type of advertisement. The costs of anything more than a simple print ad are significantly greater. However, if a well-written, informative tech note or a case-study – even if marked as advertisement – can provide tangible benefit to the reader, it can be referenced in subsequent ad copy, thereby improving the return on the initial expense.

In this regard, a successful advertising plan is based on a balanced communications plan. There are many options for getting the word out and advertising your company and products. But, how do all the individual components fit together? With so many options, you must ground yourself with at least one anchor point,
which will then allow you make subsequent strategic decisions. And this doesn’t mean positioning in a strategic sense, but specifically where you start when you come to work Monday. One anchor option that is useful is the conference schedule. Once the conference schedule is in place, it can become the driver of other key marketing activities within your company. For example, the conference schedule can then drive your advertisement schedule, which then may dictate your product launch schedule, which in turn may affect the rate of the new product development cycle. The advertisement schedule at the next level of granularity may be dictated by the ad venue’s editorial calendar. In some cases, space and availability drive the advertisement schedule, but this is typically not an issue for a small biotech startup because the price of a single ad may exclude you from competing for the most coveted ad spaces, namely, the OBC.

This scheduling approach allows you to start estimating the necessary funds and optimizing your planned activities given the budgetary constraints. You can then review the effectiveness of these scheduled activities as specific goals measured over specific time periods. For example, you can see whether an ad in a peer reviewed journal increases traffic to your Web site. Obviously, the goals need to be set in advance, but the scheduling approach makes it easier to operationalize and to meet those goals.

HOW DOES ONE NAVIGATE THE MAZE OF THE BIOTECH AD WORLD, ESPECIALLY WITH A LIMITED BUDGET, LIMITED HUMAN RESOURCES AND LIMITED TIME?

And, there are more issues. Suppose you decide that an ad in a journal might be a good marketing investment. First, you need to relate this back to the basics of the 3C and 4P analysis and the positioning statement – determine the target audience, the state of the target audience, and your goals. This is great, you say, but how? What questions do you need to answer to decide on the journal and on the ad? What are the parameters that actually need to be decided upon? Well, many. Here is a list of the types of questions you should answer before you sign the insertion order (I/O):

- Who is the target readership?
- Can the readership be described by title, function, etc.?
- How is the journal marketed? What is the publication distribution?
- What is the conference distribution schedule for the print journal?
- Is there a business publication audit (BPA) statement available? How is their readership changing (annual growth rate)?
- If advertising online, what is the average traffic to the Web site? What is the average time spent on the advertising Web site? What is the average number of page views per visit?
- How is their rate card structured for online advertising? Is the online space rental based on time, such as cost per month, or is it fixed “cost per mille” (CPM) aka cost per one thousand impressions? How often do they provide traffic reports?
- Are their electronic table of contents (eTOCs) opt-in/out?

Remember, it’s your budget, and you have to choose the best vehicle for your messages.

While having a solid understanding of the reach and frequency of an ad is important, negotiating the price of that ad space is just as important and can help bolster the return on your marketing dollars. Advertising space is very negotiable, at least in the life science publications. In addition to seeking a lower price, other strategies include receiving comps, such as agency discounts and honorable editorial mentions.

This is simply the beginning of a discussion on marketing operations, in context of a more global company marketing strategy, for the startup marketing professional. These and many more questions will be addressed in subsequent editions of the Rady Journal and in a marketing series on the Rady Marketing blog. The goal is to bridge the gap between the classroom and the field, and make marketing a powerful business tool.
For the first issue of the Rady Business Journal, we thought it fitting to speak with Ernest Rady, life-long entrepreneur and one of the founding contributors to UCSD Rady School of Management.

Ernest Rady’s initial $30 million gift bestowed confidence in the innovative model for business education led by Dean Robert Sullivan. The donation allowed UCSD to build the School’s initial facilities, attract a stellar faculty, and attract the inaugural class of students. We asked him about the keys to his success and lessons learned during his career which includes areas as diverse as real estate, oil and gas exploration, and insurance and banking.

“I believe in the core strengths and mission of the University of California, San Diego. My investment in the business school will ensure that these academic strengths are infused in the community and throughout the globe, as the Rady School produces ethical and visionary leaders to shape a new economy.”

Juli Iacuaniello (‘09) is the manager of strategic marketing at SKF, where she is responsible for market research, strategic planning and competitive intelligence. Previously, she was a financial journalist at Morningstar Italy, where she helped increase their online readership to become one of the top ten Italian financial Web sites.
Ernest Rady began his career by studying law and commerce at the University of Manitoba before acquiring Summit Resources, an oil and gas exploration company. Since moving to San Diego, he has also owned interests in businesses as varied as broadcasting and beverage distribution. He is also the founder and chairman of Insurance Company of the West and American Assets, a privately held conglomerate that manages financial services companies in insurance, investment management and real estate. Previously, he was founder, chairman and CEO of Westcorp, which was sold to Wachovia in 2005. He shared with us his candid insight into the keys to success in business and some of the challenges facing companies today.

**You have been called one of Southern California’s most significant business leaders. Can you share the highlights of your career and how you arrived at this point?**

I have had four major businesses: banking and finance, insurance, oil and gas, and real estate. I started five independent oil and gas companies to become the second largest independent player in Western Canada, later selling this business to the largest one. Perhaps I sold too early, but I looked at the economics of the business – the small players were finding oil for $10-15 a barrel, while the majors were finding it for $5 in exploration costs. I realized I had to go with the majors. Westcorp was started out of a trailer with $850,000. I built that business by continually raising my sights and associating with good people. The common thread in each of these businesses is assets; they are all dependent on assets and people. The business can’t walk out the door if an employee decides to leave. Also, I never invested in anything too technical. I’m a meat and potatoes kind of guy!

Having been actively involved in real estate investment for the past 40 years, can you share your thoughts on the current situation of the real estate market? What do you think will happen in the next year?

A good portion of the housing market in the United States is in a depression – a very difficult situation. It’s not as dramatic for the commercial and retail sectors. But the commercial market is starting to soften, with mortgage companies going bankrupt, office vacancies are 11 percent to 12 percent, although if you take into consideration those available for subletting, this goes up. For the retail market, it really depends on the market – it is very tough to generalize because the dynamics are so different. For example, San Diego has more barriers to entry and the market has not been as badly hit. I operate in Hawaii, San Diego, San Francisco, Monterey and have one property in Texas, but I always stick to areas where the barriers to entry are high.

I’m not sure when it will bottom out, but the mechanics are already starting to work it out. The drop in interest rates, decreasing risk spreads, and measures taken by the government will help people who previously couldn’t afford to buy. It will probably be another two years of a slugfest before we see the end of it.

The economy has certainly been affected by the housing slump. A lot depends on the government reaction. Without the measures they have already taken, the situation would have been much worse. Bernanke started slowly, but got the idea, and the government is coming up with creative ways to buoy the economy. Having a bubble is not unusual – the same happened a decade ago with the technology companies. The consumer has the ultimate gain because bubbles fuel a drop in prices which will benefit consumers. In the housing market this means that individuals who couldn’t afford to buy will now be looking at entering. Eventually this will help the housing prices to settle.

**What about the financial markets?**

Every business has challenges. Right now the financial sector is facing difficult times, but some companies are better equipped to handle it. The government is already stepping in to soften the blow by opening the credit window, and liquidity is coming back. The banking industry is in the most difficult situation I have seen in my 40-year career in this country. However, most of the industry is very strong and they are working their way through the present problem. The major banks will probably work through this mess over the next one to two years. The whole American economy, and to some extent the world, has been over-engineered and needs to unwind itself – to deleverage. The challenge here is that Americans are so creative and profit motivated that they create instruments that lead to excesses, which eventually have to be righted. That’s what happened with the financial markets, but it will all pass. My father used to say, the only thing that is certain is fluctuation. This will settle down and then, eventually, we will have another bubble.

**You used to own businesses in the oil and gas industry. Can you comment on this market?**

Although I no longer own businesses in this area, I still follow these markets. India and China are growing, fueling an improvement in the standard of living. This is supporting the oil prices, and while the overall marker may have downturns, it will not go down significantly over the long term. It’s not possible while the economies around the world are demanding more oil to support this growth. Most of the major oil
and gas companies are threatened by renewables and, consequently, are investing in them. This action is both politically and profit motivated because they see renewable energy as a potential substitutive threat. There is a lot of investment and interest by many other companies in this area. We will see lots of false starts, money made, money lost, and hopefully in the end we will create a better economy.

Moving away from business to a more personal note, you have been a very strong supporter of Rady Children’s Hospital San Diego. Can you tell us about that?

I got involved with Children’s Hospital when I was building one of my businesses. A gentleman that I was working with had a deaf child, and Children’s helped them immensely. One day, he asked me if I wanted to be on the board of directors. I agreed, and ended up serving in various positions over the years, including chairman of the board. Through my involvement, I was able to see the inner workings and challenges faced by Children’s. It’s difficult to raise money for children’s hospitals because most donations to hospitals are made by elderly people, who typically donate to adult hospitals to ensure better care for themselves when they need it. Most young parents aren’t at a stage where they can give as much. Working with Children’s Hospital has been so rewarding, and has given me so much, many times more than I ever imagined, and more than I gave!

Why did you decide to get involved with the Rady School of Management at UCSD?

I had a great career and a lot of fun doing it. I wanted to help provide a way others can enjoy their career as much as I have. I also guess I wanted to leave a legacy in a sense. Business schools help build a foundation, teaching students things that would otherwise take many years to learn. I never expected that I would be able to see the progress that has been made so far at UCSD’s Rady School of Management.

What are your expectations and vision for Rady?

I don’t have any specific expectations for the program. The team led by Dean Sullivan has done an amazing job setting it up. They initially asked me if I had a preference in what was taught at the school. My only guidance is to teach what people want to learn. I wouldn’t have added anything to Dean Sullivan’s curriculum. He has done a fantastic job and has accomplished in three years what I thought would take more than ten. It’s very rewarding to see things happening so well and so quickly. With the dean and his team, we will be all that we can be, and this is all I had hoped for.

What are the biggest opportunities for new graduates right now?

I would tell them to match their skills with what they enjoy in business. You could have a great opportunity, but if you don’t like it, you shouldn’t be in it. If you like what you do, you will work harder and have more fun. I have been passionate and interested in all of my businesses.

What is the best advice you would give to new entrepreneurs?

Find something you like. I never ask people “Are you working hard?” but rather “Are you having fun?” Also, make sure you are associated with people you trust. In my speech to the inaugural UCSD Rady graduating class, I said the keys to success are ideas, people and capital, but it all comes back to people. All three are important, but good people will find capital and come up with ideas. My father told me that there are three things in business: people, people and people. I have found this to be very true. You can have a bad business with good people and it will have a good outcome, as opposed to a good business with bad people. I credit my success to a good ability to judge people, a lot of common sense, and enjoyment of what I do.
Most people in the business community would agree that marketing plays a critical role in the growth of a company. However, many technology companies struggle with designing and implementing the optimal structure for marketing functions within their firms. Using an examination of five different technology companies, we have developed a timeline-based framework for marketing functions.

Though located in a metropolitan region with only a handful of Fortune 500 companies, San Diego is home to many small and fast growing technology firms. The marketing functions in these companies are still evolving and, in some cases, not well defined. While large consumer goods companies have well-defined marketing functions such as brand manager and advertising executive, marketing has

Richard Vogt (’08) is a former IT consultant and chemical engineer. His studies at Rady emphasized leadership and marketing. He is a faculty member with the Missouri Scholars Academy and plans to explore new technology integration in institutional planning and business development in the educational and training industries.

Tejaswini Ravindra (’08) worked as a software design and technology consultant in the United States and India. At Rady, Tejaswini focused on marketing and technology strategy. She was one of only 20 MBAs to receive the prestigious IBM Extreme Blue internship, and now provides marketing and consulting for technology companies.
traditionally been a lower priority at early stage technology companies. To make matters more complex, the marketing needs of these companies depend on the maturity of the technology company. All these factors make adopting classic marketing roles within these companies a challenge.

Kim Haneke, an independent marketing consultant in San Diego, confirmed the low priority given to the marketing function within technology firms. She says, “Marketing in technology companies is viewed as a necessary evil. The typical approach is to get a marketing person on board once you have developed the product.” This is clearly a counterintuitive approach, considering many young technology companies fail because of lack of focus or underdeveloped marketing strategy and execution.

During the course of interviews with five San Diego companies of varying maturity levels, a framework evolved based on the constraints relevant to the San Diego market.

**Startup and Launch at Chumby International**

Chumby is a configurable consumer electronics device that looks like an alarm clock, but is connected to the internet. Chumby International sells the chumby™ wireless desktop device and runs the Chumby Network. This network is a pipeline of user-created widgets, commercial widgets and content from network partners such as CBS and MTV. Born out of the desire to meet the needs of a “demand generation,” the chumby™ was created to provide the favorite aspects of the internet in a customizable and compact format.

As the company grew from its first round of venture-based funding, the CEO took on the marketing role and became responsible for product positioning. Upon receiving a second round of funding, Rick Maiero, VP of product development, notes that the company will now look for a VP of marketing to be the first hire dedicated to the marketing function. Even though San Diego has plenty of resources for software engineers and hardware support, consumer electronics marketing is not supported with local agencies and talent for hire.

Chumby is building a marketing strategy to drive their device into the mainstream while simultaneously building their content network. According to Maiero, “The main challenge is starting to crystallize. Educating the prospective buyer on why they want to buy a chumby™. We will focus the Web site on this aspect.” This is paramount since chumby™ can only be purchased online and is not available from brick and mortar retailers.

Chumby International faces a problem similar to other startups: the question of where to focus the product upon launch. Ken Wallace, VP of Operations, points out that “surveys suggest that early adopters are over 30, but our target market for gaining revenue from advertising is 18 to 32.” It is essential for Chumby to corner this coveted target market while simultaneously generating a revenue stream based on advertising. To acquire this revenue, it is paramount to understand and monitor the behavioral characteristics of their consumers. As they are selecting their own content, the consumers’ choices are fed back to advertisers. While Chumby is marketing their consumers to advertisers, they recognize the need to balance these focused analytics with customer privacy.

In their February 25, 2008, product launch, Chumby used the branding statement “Wake up to internet life.” In reference to educating the mass market, Maiero asks, “How do we get on Oprah? Is it possible to do that?” And, how does a company like Chumby find local PR firms who can make the “Oprah Dream” come true?

**Startup and Launch at AIRSIS**

AIRSIS Inc. is a diversified technology company with a 10-year track record of providing innovative solutions to a wide range of customers, including those in the maritime industry. One of their latest products is PortVision, a Web-based service that increases efficiency, reduces cost and enhances safety and security for maritime users.

Like many startups, AIRSIS did not begin with anyone dedicated to the marketing function. Dean Rosenberg, the President of AIRSIS made marketing decisions on his own and eventually hired a marketing communications director and a chief operating officer, followed by a director of maritime sales. Rosenberg explains that he “knows the product works and that it’s all about sales and marketing.” The company is determining what sales channels to use and whether to focus PortVision marketing on the 100 institutions that would use PortVision as a six-figure enterprise system, on the 100,000 core users who form the fabric of maritime or on all users of North American waterways.

Rosenberg is searching for the way to convince decision makers of the value of the product and how to gain customers in one segment without losing in another. “We may have to disenfranchise one group to empower another. It is necessary to view the fabric of maritime or all users of North American waterways.
difficult to sell a 50 percent reduction in demurrage charges to one group without harming another group who benefits from those charges and is a potential customer."

Positioning the brand to appeal to different segments is a challenge because each segment has differing uses and, thus, different price-points. Reflecting upon challenges brought on by a lack of customer data analysis, Rosenberg adds, “We lost potential funders because of large scope. We also made a flaw by calling it the ‘Google for maritime.’ Google is free.”

The difficulties of positioning and pricing are exacerbated by the lack of available market research, so decisions are made based on assumptions rather than data. Rosenberg explains, “When the assumptions change, the strategy changes. I have been disappointed in my career by data for purchase, particularly within the high-tech paradigm. I believe in only going with real data.” He also acknowledges that when listening to the customer, you must consider the reliability of the data. He goes on to say, “There is no perfect data to do analysis. We could benchmark against competitors, but there aren’t many. We have tried to benchmark against other systems, but they do not serve maritime businesses [and] individuals, so how do we compare?”

Rosenberg states, “I am relying on my COO to identify the 20 percent of real customers from the total available market. We know that we can reach the decision makers through trade shows and build evangelism through trade magazines and our own quarterly newsletter.” His Customer Advisory Board tells him to trust ROI over anecdotal evidence. Rosenberg, in reference to the results of direct interaction with potential customers, describes his attitude as “optimism tempered by objectivity.” Similar to many high-tech CEOs, Rosenberg realizes the value of good marketing research in informing marketing decisions, but he does not know where to obtain accurate and useful data.

**Initial Sales and Growth at ID Analytics**

Co-founders Bruce Hansen and Mike Cook established ID Analytics in March 2002 in San Diego, California, drawing on their combined 40 years of experience in analytic software and services for risk, operations and market.

ID Analytics started with one product for identity fraud prevention, credit risk assessment and identity-related intelligence. They have since expanded to five products.

However, it has only been in the past two years that ID Analytics has added a separate marketing organization. This organization, under the leadership of Chief Marketing Officer Larry McIntosh, has streamlined its marketing efforts and further developed its pipeline and partnerships in the industry. McIntosh says, “Our marketing organization consists of me, a VP of public relations and a director of marketing communications, for whom I am currently looking.”

In ID Analytics, the marketing department plays a key role in the design of corporate and product roadmaps and works closely with product management and sales. The sales and marketing teams are in constant communication with regard to accelerating the sales pipeline, and to identifying potential leads. The marketing tactics for enterprise-level products are more focused on building strong partnerships with existing customers and, in some cases, the customers act as evangelists and resellers of the technology. When asked if marketing ROI is measured at ID Analytics, McIntosh shares, “One way of looking at ROI would be to track how many customers moved to the next stage in the sales pipeline due to a particular marketing event.”

While Chumby looks at how best to implement their optimal marketing strategy and AIRSIS hunts to find sound data from which to make decisions, ID Analytics is facing a daunting talent search. When asked about the marketing talent in San Diego, McIntosh commented, “People don’t come to San Diego looking for top marketing talent. Typically, companies seek their top marketing talent from New York or San Francisco. San Diego is still predominantly viewed as a science and research town where marketing may not be perceived as a top priority. If there is no demand, why would marketers come here?”

Again, marketing is shown to be a lower priority function both in startup technology firms and the communities in which they thrive – a pattern mirrored by the experiences of Chumby and AIRSIS.

**Growth at Mitchell International**

Mitchell International, a San Diego-based software and data analytics solutions provider is a leading name in the auto insurance and collision repair market. Mitchell is a 1,000 employee firm that sells a range of software and information solutions products. Mitchell evolved from a data provider to an enterprise software player over the last 60 years. Their customer base is comprised of both large insurance companies and smaller collision repair shops across the country.

At Mitchell, marketing is shared between the corporate marketing and product marketing teams. The product
marketing teams own the positioning of the product and the P&L responsibility. The corporate marketing team works with product marketing to help execute the campaign and ensure brand identity, consistency and continuity.

Being a midsized company has its advantages. About 150 managers have an intimate understanding of the market and, hence, Mitchell is able to respond quickly to shifts in the customer landscape. This is an edge that bigger companies with complex decision-making procedures sometimes lack.

According to Jesse Herrera, senior vice president of marketing, it is not all roses. He says, “In my opinion, branding can be more challenging in smaller companies, which must manage and police separate brand teams.” When asked about comparisons from his previous role at General Electric, Herrera says, “In GE, marketing was a more corporate driven process. In smaller companies, there may be instances when people are using their own template for a presentation or using differing logos.”

This brings to focus a unique situation that midsize technology firms face. Rather than being explicitly driven by a dedicated manager and team, branding typically becomes something that evolves without direction or focus.

For a company like Mitchell, at the growth phase of development, branding has now become a vital aspect of marketing strategy. However, firms are often unprepared for this new strategy, and still consider branding as a low priority to be put off until it is absolutely needed.

**Growth at Intuit**

Having a twenty-five year history and revenues of $2.6 billion, Intuit is by no means a small company. The consumer tax division based in San Diego, however, operates much like a midsize firm, focusing on innovation-based growth. With the most mature marketing team of the selected companies, Intuit is able to provide a perspective on the marketing function which every company will face as they mature: marketing operations.

Unlike Mitchell, who is still developing a brand, Intuit’s brand permeates all functions in the company, as stated by Kim McNealy, director of marketing for innovation businesses, “Every company has its own culture and it's about cultural fit. [As a manager] you live and breathe for the company. It's about 'choose easy.'” He relates how the founder of Intuit was doing taxes with his father and thought, “Is this as easy as it could be?”

Although the brand is about choosing easy, integrating several marketing functions within his organization is not easy. Prior to last year, product managers, software engineers, marketing and customer support managers would meet in cross-functional teams to decide the direction of the consumer tax software. Issues developed around the pace of their process as well as the clarity of the decisions that were made. As a result, McNealy explains, a marketing operations group was formed “to think through the process [and figure out] how do we do it faster. It is about organization of commitment, deciding who the leader-facilitator is and who the approver is. Also, who are the right people? Can we move the dial, being inclusive as well as agile?”

When asked about how product decisions are made, McNealy answered, “Data driven. There is an obligation to share data to help make decisions. The current CMO advocates the learn-teach-learn approach: learn from the data, teach the best practices and then learn it even more.” Even though several teams are brought together by marketing operations, no single function leads. As a matrix organization, it is much clearer when the team decides under the direction of a designated facilitator how to move the dial on a product or a portion of the product and then the ultimate decision lies with one person, and the team supports that person completely.

As a reflection of the “choose easy” spirit within the company, the marketing operations group was created to make the marketing function marketing faster and easier, and their efficiency spread to other teams within the company.

However, the learn-teach-learn approach and best practices it produces does not filter out into the smaller-growth firms due to the lack of a strong community-wide infrastructure. McNealy, a relatively new addition to the San Diego marketing community, says that he currently knows of no marketing network organizations in San Diego. If marketing was not given such a low priority in the community, marketing-focused networking organizations could be created and both startup and well established firms would benefit from the knowledge sharing.

**A Framework Evolves**

From the discussions with the preceding five technology companies, a theme arises: growing technology companies have continually followed a just-in-time approach to marketing, due to the lack of importance placed on these functions. The companies
are implementing programs as challenges arise, rather than having a focused strategic marketing plan in place which anticipates these issues.

Particularly acute to the San Diego region, entrepreneurs have problems with identifying quality data, top-tier talent and a local marketing forum. This hinders the development of the technology sector as a whole because weak marketing decreases a startup’s chance of success.

One solution is a framework that focuses on the growth stages of a firm as well the particular marketing needs of each phase. As the technology company further grows in size and customer base, the classic marketing functions – such as market researcher, product development, product manager, brand manager, advertising manager and public relations manager – are added. If successful, the company grows to need a complete marketing operations team.

Kim Haneke reiterates the necessity for a strong marketing foundation, “The first person hired by technology firms should be a competent, experienced marketer who can handle PR, develop a strategy, develop a brand, oversee any promotions, advise on pricing and the target market and hire a strong marketing team as the company grows.”

As smaller firms acknowledge the importance of marketing early in their development, they create an increased demand for talent, associated industries (i.e. ad agencies, PR firms, etc.), and community-wide networking groups. With this shift in the value placed on marketing, the San Diego technology sector will draw upon a greater resource pool and utilize them more effectively.

This domino effect will only occur when companies make a commitment to marketing before it becomes a just-in-time necessity.
The Rady School celebrated the opening of its new building, Otterson Hall on June 1, 2007. The building is named Otterson Hall in honor of the late William (Bill) Otterson, co-founder of UCSD CONNECT, in appreciation for his contributions to the San Diego business community and his impact on the region.

Otterson Hall is 50,000 assignable square feet and has classrooms, conference rooms and common areas, as well as faculty and staff offices. Otterson Hall was designed by Ellerbe Becket, with environmental sustainability in mind – using natural ventilation, energy efficient lighting and office chairs made of recycled content. Rooftop Kyocera solar panels produce roughly 25,000 kilowatt hours of clean, renewable energy annually, providing nearly 20 percent of the building’s energy needs.

www.rady.ucsd.edu