Brand Makes the Man: Children as Consumers
Building Consumer Trust
Catching the Next Big Idea: Consumers and New Product Development
Rituals and Consumer Behavior
Faculty in the College of Business stress to our students that understanding the consumer is essential for business success. Whether a business offers services or products or both, whether a customer is an individual or another company, focusing on the consumer is key to sustained success that favorably impacts the bottom line.

Business schools make a significant contribution to expanding our understanding of consumers. Lan Chaplin’s research on when children become aware of brands gives us insight on the strong attachments these youngest customers have to labels and the implications of such brand awareness. Adult consumers are also strongly influenced by the expectations of others, and their “ritual consumption” is the focus of Cele Otnes’ research. High-stakes decisions by consumers rest on trust, an emotional and difficult-to-quantify aspect of service relationships, and the subject of research by Tiffany White.

Higher education also feels the impact of consumer preference. The College of Business offers several degree programs and specializations to meet the educational needs of both full-time students and working professionals. Similarly, the College was pleased to be selected by agricultural giant Archer Daniels Midland (ADM) to develop an executive development program tailored to the needs of the senior managers of the firm.

For any organization, success often begins with answering the questions: “Who are my customers? How can I add value to their lives?” College of Business faculty help provide answers to these questions, which may open the door to whole new markets.

Avijit Ghosh
Dean
WHAT’S THE BRAND, MAN?
The roles that brands play in defining the self-concept of children.

CATCHING IDENTITY THIEVES
The impact of identity theft on the country’s payment systems.

TAKING AIM
How consumers use accounting information to make investment decisions.

CONSUMER TRUST
What matters most when consumers seek expert advice?

WHAT DOES THE BUSINESS EDUCATION CONSUMER WANT?
The College’s one-year MS programs deliver.

CATCHING THE NEXT BIG IDEA
New product development and the role of the consumer.

WHOLLY MATRIMONY
Consumer behavior and the ritual of weddings.

RESEARCH FOCUS: SHOPPING AROUND
The effects of bank expansion and consolidation on local markets.

RESEARCH FOCUS: CHANGING BANKING MARKETS
What shopping channels do consumers choose and why?

4 FOR 4: CALCULATING RISK
Stephen D’Arcy discusses insurance industry issues and their impact on consumers.

COLLEGE BRIEFS
News from the College of Business
If it’s true that “clothes make the man,” then what does a boy’s choice in clothing say about him? According to kids, it says plenty. And research confirms that children and adolescents use brands, especially clothing brands, to communicate to the world just who they are.

Lan Chaplin, assistant professor of marketing, has been studying children as consumers since graduate school and has heard firsthand from them about the role that brands play in communicating and defining their image. Together with colleague Deborah Roedder John, professor of marketing at the University of Minnesota, Chaplin has researched the age at which children begin to incorporate brands into their self-concepts and how these self-brand connections change as children move into adolescence.

Kiddy Consumers
According to Chaplin, children as young as 4 or 5 years old can recall a cereal or other product brand and possibly even spell it because of their familiarity with its packaging. But it isn’t until middle childhood, when a child is 8 or 9 years old, that they begin to develop more of an association with possessions.

“In middle childhood, children still define themselves concretely but are beginning to think more abstractly,” Chaplin says. “For instance, they can understand that the Nike swoosh means you’re an athlete. However, for children at this age it’s all about mere ownership. If they identify with a brand, it’s simply because that’s what their parents have bought for them, not because of any brand image that they might have.”

As children enter late childhood, from 10 to 12 years old, their self-brand connections become more sophisticated. They gain an understanding of the underlying image that a brand represents, and they use this information to make choices that define their self-concept. By early adolescence, their reliance on self-brand connections has firmly taken root.

“From ages 12 to 14, children have an understanding of brands because they’ve come to be abstract thinkers,” explains Chaplin. “They’re aware of their social environment, and they want to project a certain image. They’re also attuned to user stereotypes for certain brands, and they use that information to try to shape what others think about them.”

“Our research indicates that kids identify themselves much more with clothes than anything else,” says Chaplin. “They understand that people won’t judge them by the candy bar they eat, but they will by the clothes they wear, so clothing brands are very important to them.”
The Land of Brand

In the world of adolescence, nothing speaks louder than brands. It’s a message Chaplin heard and saw repeatedly as she conducted her studies with three groups of children – third graders, seventh and eighth graders, and eleventh and twelfth graders.

The participants were asked to build and then explain a “Who Am I?” collage. According to Chaplin, the key to conducting research with children is finding the right methodology. “I use projective techniques rather than surveys because the hands-on approach of collage building works well with children. There’s an artsy element that kids enjoy, and therefore it elicits more thoughtful responses than a simple survey would.”

When building the collage, the children could select preexisting pictures and labels for categories such as appearance, personality traits, hobbies/activities, sports, TV show characters, and clothing brand names, or they could create their own. As expected, third graders chose the fewest brand names for their collages and had concrete explanations for their choices, such as: “My mom buys me things from the Gap.”

In contrast, the adolescents used twice as many brand names to create their collages, and their self-brand connections were more sophisticated. An eleventh grader, for instance, described her use of the Gap logo by saying: “The clothes there are me because they are really nice and not so showy – real down-to-earth.”

And it’s clothing brands that make the biggest statement. “Our research indicates that kids identify themselves much more with clothing brand names than anything else,” says Chaplin. “They believe that people won’t judge them by the candy bar they eat, but they will by the clothes they wear, so clothing brands are very important to them.”

They’re so important, in fact, that brands are often the sole influence in adolescents’ purchasing decisions. Chaplin and John conducted an experiment to test this brand loyalty, offering participants the choice of a pair of jeans with the Target brand or the Abercrombie & Fitch brand. Although they could see that the jeans were exactly the same except for the brand, the overwhelming choice was the A & F pair. Even when a $10 bill was attached to the Target version, the participants still preferred the A & F brand.

Living in a Material World

Chaplin and John have extended their research with children beyond self-brand connections, studying the correlation between children’s developmental stages, their sense of self-esteem, and their level of materialism. When self-esteem is low, materialism is high – and certainly adolescence is a time that takes its toll on self-esteem.

So it should come as no surprise that 12 to 17 year olds are high on the materialism scale. Still, some of their responses during the materialism studies were eye-opening to Chaplin. “It was so interesting to me that kids don’t care if they’re perceived as materialistic – as opposed to adults, who don’t want you to have that impression of them.”

Participants in this study were asked to build a “happiness collage” choosing items that make them happy. When they were done, they were asked to remove the items that were least important to their happiness. Too often, it was a person or an activity that was eliminated and a cell phone or other possession that was retained. “In some cases, they didn’t even have the possession yet but felt they would be happy if only they could get it,” says Chaplin. “They even said: ‘I know this sounds shallow, but these things make me happy.’ They apologize because they know it sounds materialistic, but it’s how they really feel and they’re not ashamed of it.”

A Positive Message

What implications does this research have for business today? Chaplin hopes that as marketers come to understand the developmental tasks and challenges facing children and adolescents that they will be sensitive to the vulnerabilities of these younger consumers.

“I hope my research will be used in a way that impacts public policy positively,” says Chaplin. “As we come to understand why children behave as they do and how fragile they are at certain ages, it’s important that companies exhibit corporate responsibility in marketing to this audience.”

– Cathy Lockman
The business world is full of problems. Solving them can be tricky, and sometimes the process of building a better mousetrap actually complicates the problems further. That certainly can be the case when it comes to dealing with identity theft, a crime that is costly both to merchants and to individual consumers whose identities have been stolen.

Researchers such as Charles M. Kahn, professor of finance, focus on problems like identity theft because they affect the payment systems that allow us to use checks, debit cards, and credit. These payment systems are the backbone of world commerce. If they should grind to a halt, the world’s economy would quickly suffer.

That’s where Kahn’s research comes in. He wants business to consider the damage that may be caused to our payment systems by the safeguards added to prevent identity theft and other forms of fraud. “People tend to say, ‘here’s a problem, we’ve got to do something to fix it,’” says Kahn. “They don’t think about what the consequences of that fix might be.”

The Tradeoff Trap

To aid the process, Kahn and William Roberds, of the Atlanta branch of the Federal Reserve Board, have created an economic model that analyzes the effectiveness of fraud control techniques, taking into consideration what can go wrong if the systems are too complex. In essence, Kahn says, it’s a matter of tradeoffs. If you make it too hard for someone to buy something, business may suffer.

According to Kahn, some identity theft is a natural consequence of efficient information sharing, and information sharing is essential to business. That doesn’t mean nothing can be done about it, but it does mean that we have to accept that reducing identity theft comes with a price—and not just an economic one. As Kahn and Roberds wrote in a summary of their research: “Policy proposals that focus solely on reducing the incidence of identity theft may do more harm than good. . . . The key tradeoff confronted by the credit system is how to share information on identities without costly and intrusive monitoring of individuals, and this tradeoff will persist.”
As a practical matter, identity theft and other forms of fraud are not the biggest threat to business. Instead, consumers who turn out to be bad credit risks pose a greater problem. These include people who won’t pay their bills, or who can’t—for example, someone who just lost her job or got hit with a huge medical bill. “Four percent of credit card transactions are never paid off,” says Kahn. “Fraud is a much smaller problem. Yet business spent disproportionately to curtail fraud.”

Kahn doesn’t minimize the problems that identity theft can cause. “Identity theft was previously not big enough to worry about in a systematic way,” he said. “Now it is.”

Consumers whose identities are stolen face ruined credit, constant harassment from collection agencies, and, in extreme cases, they may be arrested for fraud perpetrated in their name. Businesses lose money when they can’t collect on goods they’ve sold. And the company that designed the failed anti-fraud system may not be able to get anyone to buy it. “As soon as the crooks figure the system out, you can’t use it anymore,” says Kahn. Even the most expensive anti-fraud systems can become obsolete quickly.

**Will Consumers Take the Bait?**

So everyone looks for a better solution. That’s where problems set in. One chain of gas stations, for example, has asked consumers to provide fingerprints before they write a check for their purchases. Aside from raising civil liberties questions, some customers may choose to avoid the company’s stations altogether rather than submit to fingerprinting.

Kahn wants business to look deeper to see if the focus on eliminating identity theft is causing more problems than it solves. “How expensive do you make the process of verifying identity before it gets to the point where it isn’t worth doing?” he asks.

The answer may depend on what you are buying. “Think about what you go through to purchase a house,” Kahn says. “A lot of that is credit checking. If it’s a big purchase, I may be willing to go through a lot of procedural paperwork that the seller wants performed in order to verify creditworthiness and identity. But if I’m buying a compact disc online, the process had better be simple, or I won’t go through with it. The Internet uses passwords and secret codes for online transactions. Some customers are so turned off by the process that they don’t make the purchase.”

At the same time, companies that design overly elaborate fraud systems may find they are turning off the financial institutions they hope will purchase them. “If it’s too hard, the company using the payment service may lose business or they may cancel the service,” says Kahn. “The trick is to fine-tune the tradeoff, so that you get a system that works but that you can also live with. You may still lose money through fraud or bad credit problems, but you may lose less money than if you had adopted something elaborate.”

— Doug McInnis

**A Lot of Cheese at Stake**

Prevention has made a big impact on credit card fraud rates. In fact, fraud rates have fallen from their peak of .157% ($0.157 per $100 in transactions) in 1992 to .047% ($0.047 per $100) in 2004.

But with credit card volume exceeding $1.2 trillion and debit card volume nearing $700 million in 2004, the actual dollar amount of fraud has increased. It is projected that credit card and debit card volume will continue to rise rapidly (credit card volume at about 8 to 10% per year and debit card volume at 20% or more), so fraud prevention remains a critical issue for US businesses.

To Kevin Jackson, assistant professor of accountancy, it’s no stretch to consider individual investors as consumers. Not only are they consumers of equities, but they are consumers of the financial accounting information disclosed quarterly by publicly traded firms.

“Consumers rely on the information we provide to make their decisions,” says Jackson. “In our profession, that’s the commodity we sell—relevant, reliable accounting information that consumers can have faith in. So it’s incumbent upon us to make sure that we do that, that we provide that type of information.”

Although individual investors often use non-financial measures, such as social responsibility considerations or product loyalty, when evaluating potential investments, financial accounting information remains the cornerstone for analyzing investment decisions, Jackson says.

Individual investors may use non-financial measures as a screening tool to weed out possible investment targets. For example, an individual may only consider a list of equities that have been vetted by socially responsible investment organizations, but he or she will often use financial accounting data to justify the value of investing in each firm.

A Moving Target

Just how individual investors use specific pieces of financial accounting information remains difficult to pinpoint. Pundits on financial news television networks may try to interpret market trends and results in order to uncover this information, but mostly their analysis is conjecture, Jackson contends.

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Research That Hits the Mark

While investors may adhere to a strategy that uses a particular piece of financial accounting information to inform their individual decisions, other factors of human nature sometimes get in the way.

Susan Krische, assistant professor of accountancy, says that factors beyond economics often affect individual investors’ decision making. Her research identifies some of the critical pieces of information that investors pay either too much or too little attention to and explores the reasons why.

“I look at the process of how people make decisions and how particular pieces of information are used in individual judgments,” Krische says. “I leave open the possibility that investors may not do something that a rational economic analysis would say is optimal. Then I try to figure out if there is something that can be added into the situation that would help the person make a better decision.”

In a 2005 study, for instance, Krische examined how investors interpret changes in earnings across time periods. She observed a scenario where in the previous reporting period, a one-time event affected a certain firm’s bottom line. The event, in this case, was the sale of property. The results suggested that when not reminded of the one-time event that occurred in the previous reporting period, investors will make erroneous interpretations and judgments of the current period’s information and the effect it could have on future earnings. This occurs because the investors are not using the same benchmark across the different conditions.

“If people are not reminded about that event that they should adjust for, they will make a different assessment,” Krische says. “The study found that even though at some prior point in time investors identified this gain or loss in the earlier period, they didn’t automatically remember enough to correct their judgments when they saw the current announcement.”

In another study, Krische and her co-authors investigated the role that confidence plays in an investor’s use of financial accounting information—specifically, how confidence, in one’s knowledge level and abilities as well as in the information itself, affects an investor’s willingness to consistently rely on a specific trading strategy. Their results suggest that investors are more likely to consistently apply a given trading strategy when trading portfolios (or groups) of securities. In contrast, when trading individual stocks, investors place greater confidence in company-specific information, which, according to Krische, “tends to encourage overconfidence in their ability to make the right choice for an individual decision.”

As Krische and her co-authors note in their paper, “the effects violate an aspect of economic rationality because our experiments ensure that investors in all conditions trade the same set of securities on the same set of information.”

Such research may help investors become aware of these issues and correct some of their investment decisions. Also, it may influence the investing community in a social context by suggesting alterations to the presentation of information or the regulation of financial information, so an investor can better apply that information.

Setting Our Sights on Restoring Confidence

The Sarbanes-Oxley Act of 2002, which set new standards for corporate financial standards, was created by Congress in an effort to help restore consumer confidence in financial accounting information in the wake of corporate accounting scandals at publicly held firms such as Enron.

Sarbanes-Oxley remains controversial, and its requirements may further complicate financial accounting statements, especially for those inexperienced investors attempting to decipher the additional types of disclosures required. But its intent is to re-establish pillars of financial reporting, which protect shareholders—especially individual consumer investors. Jackson believes the incentive to maintain tight controls over financial reporting should help the reliability of the information.

“Confidence is obviously something that is idiosyncratic to each investor,” Jackson says. “Investors come to confidence on their own accord and in their own time. It may not be an immediate, ‘Well, now I’m very confident.’ But there should be a growing confidence that through the process there will be fewer audit restatements and fewer failures of companies based on inappropriate accounting. Those things should eventually make their way into investors’ confidence.”

– Laura Weisskopf Bleill
Mike and Anna have been married for eight years and have good jobs, a new home, and two preschool children. Neither are financial experts, but they know they need to establish a solid plan to provide for their current and future needs, such as their children's educations and a secure retirement. And they know they need a financial partner to help them make it happen.

As they consider the recommendations of friends and family, research the credentials and track records of various financial consultants, and ultimately meet with potential financial partners, they will have to decide who they most trust to help them achieve their goals. What will tip the scales in favor of one financial planner over another?

According to Tiffany White, assistant professor of business administration, the answer might not be as straightforward as you think. “The very nature of high-stakes decisions implies the importance of making the most accurate decision possible,” she says. “And that would seem to suggest taking the advice of only the most expert professional. But my research suggests that as high-stakes decisions increase in perceived emotional difficulty, consumers rely less on rational decision criteria and more on emotional criteria. That means when consumers are making decisions about medical treatments, financial matters, insurance, or legal issues, they may be more likely to take the advice of a benevolent provider, someone they believe is looking out for their best interests, rather than an expert.”

**Good Skill or Goodwill?**

Consumer trust is based on both expertise and benevolence. When consumers are weighing choices, they look at the provider’s skills and competence about a subject as well as his or her goodwill, or genuine interest in their welfare. It can be a challenging task.

“Being a consumer is not the passive activity it used to be,” says White. “Today, consumers have a lot of information to manage. They have to make sense of marketing cues, manage how marketers try to persuade them, and consider privacy issues. And they have to balance all this with their need to be right.” For all these reasons, the concept of trust is more important than ever to consumers. And that means the psychology of consumer trust has a lot to say to service businesses as they evaluate how best to market their services.

“Trust plays a different role in decision making depending on your sense of risk,” White says. “When consumers perceive a risk, they will often look for cues to lessen their concerns. In many cases, they are more likely to go with the character-based criteria rather than expertise because it makes them feel good. This certainly has implications for marketers. Even when consumers are aware that benevolent providers have less expertise, the perception of benevolence can act as a stress buffer, providing individuals with optimism about the outcome.”

**The Need to Be Right**

Consumers may be more confident and optimistic when they use benevolence as their criteria, but that optimism may lead them to be less objective in evaluating the level of service they receive from their doctor, lawyer, or financial advisor.

“We assume a certain level of competence when we get advice from professional advisors,” White says. “They don’t necessarily have to prove themselves time and time again. If something goes wrong we might be more inclined to blame the market or other outside factors than to attribute it to the incompetence of our advisor. If we have anxiety about our choices, we often do things to make ourselves feel better.”

It’s something White knows about firsthand. She actually became drawn to this research topic because of an experience she had as a consumer. “I had a service experience that was totally unsatisfactory, where my trust was violated, but it took me a long time to realize that,” she says. Part of the reason was that White had decided the provider was trustworthy and did not want to believe she had made a bad decision.

“When a decision is an emotional one, it makes sense that the consumer may evaluate the service provider in an emotional way,” explains White. “It doesn’t mean the decisions aren’t accurate just because they have an emotional component. But it does mean you need to be aware that your judgment could be impacted by the emotional investment you’ve made and that human need to be right.”

**The Message for Marketers**

For White, as for other consumers in similar circumstances, the stakes were high, so the expectations were as well. And, as she can attest, that makes the reaction more severe. These kinds of consumer experiences hold an important message for marketers.

“Since the mid-1990s, there has been a huge shift to customer relations management,” says White. “Customer retention is tantamount. Marketers must anticipate customers’ needs and customize their services to what the consumer wants. This focus on customer relations raises the expectations of the consumers. They feel entitled to a higher level of service, and their response is extreme when those expectations are not met and that trust is violated.”
How do marketers meet those expectations and those needs? Understanding trust and consumer behavior is an important first step. Certainly, information like White’s research on benevolence versus expertise can provide valuable information for health care, insurance, and financial services marketers.

Online marketers may also find her recent research on how consumer trust impacts online purchase intentions to be telling. Specifically, White and colleagues Ann Schlosser of the University of Washington and Susan Lloyd of American University have studied the role that website design plays in converting online visitors into buyers.

“Trust is about information,” says White. “So an information-rich environment like the Internet creates an interesting study of trust. Consumers have to be savvy enough to wade through the information to evaluate credibility.”

And what White and her colleagues have found is that website design is an important credibility cue for consumers. “If they see a well-designed website, it means to them that the investment has been made in the company and that there is a level of credibility there,” explains White.

Website design may seem like a superficial criterion, but in the absence of face-to-face contact it’s one way for consumers to make a decision and to establish a level of trust. According to White, the basic psychology here is the same as in the case of the service providers. “Online consumers are also looking for signals that their perceived risk can be lessened. And in this case, good website design is a cue that the online business is committed and capable.”

**Going Beyond Assumptions**

According to White, it’s important for marketers to use consumer behavior research to get a complete picture of today’s customer. She believes there is a tendency for marketers to make assumptions about consumer behavior—about what they want, about what motivates them to make purchases, and about how to secure their trust. While those predictions may seem logical, consumer behavior research doesn’t always bear them out.

“I like to push these assumptions,” says White, “because that’s how you come to understand why tried-and-true marketing approaches don’t always work. Understanding consumer behavior can actually change how companies act in making marketing decisions, and that certainly has important implications for a marketer’s bottom line.”

— Cathy Lockman

“Being a consumer is not the passive activity it used to be,” says White. “Today, consumers have a lot of information to manage. They have to make sense of marketing cues, manage how marketers try to persuade them, and consider privacy issues.”
Agricultural processor Archer Daniels Midland Company knows commodities. After all, the company turns soybeans, corn, wheat, and cocoa into products consumers use every day—products like corn sweeteners, flour, oils, chocolate, and ethanol. But ADM is not just a producer of goods, it is a consumer as well. And when it comes to valuable commodities like leadership training, ADM looks to the College of Business to provide “the goods.”

Nurturing Growth through Executive Development

At ADM, employees have operated under a philosophy that stresses learning through experience. Yet as the business environment has continued to grow and change, ADM recognized that it is important for companies to incorporate new strategies in order to provide staff with all the tools necessary to handle the transitions. And so with the help of faculty from the College of Business, ADM launched an Executive Development Program to fulfill this need.

According to Sandra Carroll—college liaison between ADM and the College of Business—the program was in development for about a year before its official launch in February 2004. The program utilizes the services of 12 faculty members and is comprised of two modules that serve 25 to 30 students each. The strategic module is designed for top management executives and focuses on topics such as executive leadership, strategic thinking, and strategic management. The skills module targets mid-level management and offers more practical courses such as human resource management, business ethics, and strategic marketing.

The program structure is a top-down educational effort. Gregory Northcraft, professor of business administration, helped develop the program and its cascading curriculum. “Originally, there was a group of top management team executives who were given leadership training,” says Northcraft. “Next, the skills module was designed for their direct reports.” The first exercise in the program is a joint session between the two groups that focuses on executive leadership and networking. “I really enjoy teaching the leadership module because I’m helping build connections across the organization,” says Northcraft.

ADM is not just a producer of goods, it is a consumer as well. And when it comes to valuable commodities like leadership training, ADM looks to the College of Business to provide “the goods.”

After the initial session, participants divide into their respective groups where they are taught from a different set of objectives. “Our classes are very interactive, and there are a variety of different learning activities,” says Kelly Mirsky, global training and education director for ADM. “There are group discussions, case studies, and sometimes role playing so that everyone has an opportunity to actively participate, rather than just listening to a lecture.” After the mid-level managers complete the skills module, they are considered for the strategic component.

Tools for Success

In addition to improving bonds among ADM employees, the Executive Development Program also strengthens the relationship between the University and ADM. Mirsky’s role in the budding stages of the program was to coordinate development and implementation efforts. “We worked with the University and integrated some of their traditional executive MBA classes,” she says of the process. “We coordinated our internal experts to solicit feedback in meetings so that U of I professors, internal experts, my boss, and I could discuss things to integrate into the class.” Faculty members were required to attend a half-day orientation at ADM’s headquarters in Decatur. Northcraft says it gave them “a better understanding of ADM’s overall business and helped us understand how we could take the learning messages that we have and make them relevant to the kinds of business problems that ADM employees are likely to see.”

Mirsky credits the University with introducing ADM to new resources for information and keeping the company connected to the workforce of tomorrow. Carroll views the partnership as an intellectual exchange. “We are supplying high-quality executive education that ADM needs, and ADM, in return, offers insights and feedback to faculty from the corporate world,” she says.

When it comes to understanding business theories, there’s no substitute for real-world experience. However, executives who are committed to exploring new theories and ideas are better prepared to approach work-related issues from various angles. And companies like ADM that provide these educational opportunities give their management teams the tools for success. According to Mirsky, that’s one of the most valuable aspects of the Executive Development Program. “Having that open communication ensures that theory and practice are integrated effectively.”

—Rosalyn Yates
College’s 12-Month Master’s Programs Fit the Bill

When Warren Park graduated from Brown University in 1993 with a bachelor’s degree in religious studies, he moved to San Francisco to work with minority businesses in economic development. A year and a half later, Park visited Korea for the first time, taking a position with the South Korean Ministry of Finance and Economy as an analyst and speech writer and later serving as director of international affairs at the Korea Development Institute School of Public Policy & Management. Now with more than a decade of work experience under his belt, Park has chosen to return to school to pursue a master’s in finance at the University of Illinois.

“The school has a great reputation and an excellent faculty,” Park says of his decision. “The timing was right, and the fact that it is a one-year program made it an attractive opportunity.”

Park is among the hundreds of students taking advantage of the College’s one-year advanced degree programs in finance, technology management, and several programs leading to an advanced degree in accountancy.

Supply and Demand

Ira Solomon, head of the accountancy department, says the number of students who apply to one of the master’s programs each year follows the simple law of supply and demand. “It’s a market test,” he says. “If customers like it, then it continues.”

And based on the increasing enrollment figures, the programs pass with flying colors. Solomon attributes this growth to the flexibility of the programs and the great marketability they offer students. “They are acquiring perspectives, knowledge, and skills that give them a competitive advantage,” he says. “The students in the accountancy program are some of the most, if not the most, sought-after students in North America.”

Academic reputation also impacts demand. The College consistently earns high marks for its undergraduate and graduate education in rankings among business schools across the country. The strengths of the various departmental programs contribute markedly to the College’s reputation. Students recognize that earning an advanced degree from one of the top business schools in the nation is a great collaborative opportunity to learn with and from the best.

And in the accountancy program the idea of collaboration is taken a step further to help ensure students’ success and the relevancy of the curriculum. Each year the program hosts focus group dinners for students to share concerns and offer feedback. “We talk about what’s really happening in their classes,” says Solomon. “It’s a very, very useful source of information,” especially today when the curriculum constantly needs to be updated to meet the changing demands and innovative pace of the work environment.

Making It Focused

According to Lorena Nicholas, assistant director for the MS in Technology Management program, the College’s advanced degree offerings are not only unique in vision and execution but they reflect an understanding of what is relevant to today’s working professionals and the time commitment they can make to an advanced degree.

“I think a lot of people who have work experience can’t afford to take two full years away from their field to get an advanced degree,” she says.

The Technology Management program, which is in its first year, focuses on developing skills specific to understanding the management of technology-driven firms. “This degree gives them broader opportunities by developing their overall skill sets rather than focusing on one area of business,” Nicholas says.

“We also try to bring in experts from across campus to talk about new technology they are involved in that will potentially change our lives in the next 5 to 20 years,” she says. Plus, students participate in weekly interactive Frontiers in Technology sessions, have the opportunity to visit area high-tech firms, and travel to San Francisco in the spring for workshops, seminars, and tours of pioneering technology companies. Each of these opportunities directly relates to developing leaders who will manage firms where technology plays a dominant role.

Keeping It Relevant

The MS in Finance program also incorporates real-world relevancy into the curriculum, pairing students with finance companies to work on projects as part of a practicum program during the January semester break. According to Shelley

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Chasing the Next BIG IDEA

NEW PRODUCT DEVELOPMENT AND THE CONSUMER

Every company wants products that fly off the shelves, that create a buzz among consumers, and that bring customers flocking to their stores or websites. But how do companies come up with that next big idea, that next hot product?

According to College of Business researchers, consumers are the key. Listening to them and developing products that solve their problems is one strategy. Recognizing their ability as inventors and seeking out their innovative ideas is another. The approaches may be different, but the objective is the same— to develop new products that meet consumers’ needs.
Ideas From the Bottom Up—The Consumer as Inventor

Where do the ideas for new products come from? One obvious source is the well-funded research and development laboratories of corporate America. But according to Sonali Shah, assistant professor of business administration, there is another, often overlooked source as well. She believes companies can unearth cutting-edge products by finding out what America’s backyard inventors—that is, consumers themselves—have been up to.

In a growing number of cases, consumers have envisioned products they would like to see and then set about making them in their offices, garages, and home workshops. Over time, many of these homemade inventions are picked up by industry and turned into commercial products.

“We’ve thought of companies and research institutions as the source of innovation and new products,” says Shah. “My research looks at consumers—tinkerers, amateurs, hobbyists, and others who aren’t working in an industrial setting. A great deal of innovation comes from users that historically we haven’t thought about. It’s very reasonable to expect that innovations would come from manufacturers. But in fact they very often come from consumers.”

Shah cites the development of wind surfing—a sport made possible by the invention of a sailboat mast that could rotate 360 degrees. The unimpeded rotation makes it much easier for the sailor to catch the wind.

“The sailboat industry had said this was impossible,” says Shah. Then Newman Darby, a sailing enthusiast who lived in the Pocono Mountains, began to tinker and solved the problem. “The idea came without any industry resources,” she explains. “Darby created a boat controlled without the use of a rudder. The rider simply tilts the sail to change directions.” The invention led to a new industry.

Tapping Consumer Creativity

According to Shah, these homespun inventors represent a rich source of new ideas that American industry could tap in order to succeed in world markets. “In the United States, creativity is encouraged among average people. And average people can be a great resource as US companies compete to bring innovative products to the marketplace.”

But many domestic companies are still caught up in the “not invented here” syndrome, which means they spurn ideas that did not come from their own labs, Shah says. As a result, they could be missing a huge opportunity.

Often, amateur inventors do not patent their ideas. Instead, they tend to share them openly with other hobbyists who may make additional improvements in the design. Darby, for instance, published his design for the rotating mast in Scientific American magazine. When an innovator takes that route, the idea goes into the public domain where anyone can use it—and, ultimately, profit from it. In Darby’s case, companies that looked only at ideas generated in their lab literally “missed the boat.”

These from-the-bottom-up ideas are also important because they may fill voids in fields in which corporate research and development departments have no expertise. “Say you have an orthopedic surgeon who is also a bicycle enthusiast, and he wants to make a better bicycle seat,” says Shah. “And say he has a friend who is a seamstress who could help him put it together. The amateurs sometimes bring a unique skill set to create something new. Corporate researchers are very smart people, but corporate R&D departments rarely possess as broad a skill base to draw upon,” says Shah.

What they do have, however, are the skills to help the product reach the commercial marketplace. “If you have a product that’s a little bit rough, engineers can take it and make it better. They can make it safer and easier to mass produce. You need these engineers to make the product attractive and affordable.”

The Consumer as Entrepreneur

Even if corporate America misses a new idea, an outsider may see its merit and start his own company to make a new product. “This happened with snowboard user Jake Burton,” says Shah. “He didn’t invent it, but he had been involved in snowboarding from the time he was 10 or 11 through college. He eventually founded Burton Snowboards, an industry leader.

“These new ideas are initially disseminated for free. Then a lot of people who are athletic and have time begin to make their own copies. Eventually, the idea reaches the average consumer who doesn’t want to make his own. What happens next is that one of the innovators begins to make copies at cost. Then after a couple of months, he realizes that he can give up his day job and start his own company.”

To Create a Market, First Solve a Problem

While not every consumer is an inventor, all consumers have opinions on what they want and need—and companies who seek those opinions and act on them have found another valuable source for new product ideas. Unfortunately, many companies don’t follow that strategy says Abbie Griffin, professor of business administration.

“There are several philosophies of marketing,” Griffin explains. “One is that people don’t know what they want and it’s up to the company to create a product and sell it to them. These companies think they can create markets. I disagree. I think people are smarter than that. If a product doesn’t solve their problem, they’re not going to buy it.”
On the other hand, some companies have targeted a very specific problem and come up with a product to solve it. For instance, some of the most successful products in history have solved the problem of delivering music on demand to a mobile audience. The first of these was the transistor radio, a pocket-sized device. It was followed by Sony’s Walkman and now the iPod. “Each of these products does more than its predecessor, but they all solved problems,” says Griffin. “The job of an executive is to get people to articulate what their problem is.”

**Listen Up**

In the case of the Walkman, Sony Chairman Akio Morita not only discovered the problem but also delivered the solution. Morita wanted to listen to classical music on long trans-Pacific flights between Japan and the United States. Since he was the boss, he asked subordinates to create a device about the size of a book with comfortable headsets. The rest is history, though even Morita didn’t foresee how popular the Walkman would become. “He targeted it for executives, but it turned out that the market was much larger,” says Griffin. “Everybody wants to be able to listen to music wherever they are.”

Finding out what people want comes down to talking with them. When Chrysler decided to redesign its Dodge Ram pickup truck, for instance, the company asked 15 to 20 owners to bring their trucks in. Chrysler staffers studied the vehicles and noticed that a number of their owners had modified them by building platforms between the two front seats to hold drinks the size of a Big Gulp without spilling. Existing drink holders held 12-ounce containers. The new Dodge Ram has holders large enough to hold the 32-ounce drink. The ability of some corporations to do this kind of research has been impacted by downsizing. “It takes time to understand customer needs,” Griffin says. “This is an area that has had a lot taken out of it by downsizing. Another thing that has gotten cut is travel. You don’t find out what customers want by sitting in your lab. You’ve got to be out and amongst them.”

**The See-for-Yourself Approach**

Griffin has worked in this area for two decades and consults with companies to teach them how to find problems and solutions. During that time, she’s also seen companies come up with simple ways to do that at low cost. For instance, when Griffin visited one auto parts supplier for which she consulted, its staffers commandeered her rental car. They wanted to study it to see what another parts company had come up with.

Some companies miss these easy opportunities. One car maker, for example, has a rule that employees can only use rental cars that it manufactures. “When you rent another company’s car, you can see what somebody else is doing right and what they’re doing wrong,” Griffin says.

Another way to figure out what the public might like is for a company’s staffers to use their own products. “I worked with Kraft on improving Cheez Whiz,” Griffin says. “I suggested that the product development team take two full jars of Cheez Whiz home and figure out new uses for it. The marketing manager came up with a recipe for soup made with Cheez Whiz, and people really liked it. It’s amazing how many simple little things like that companies can do to solve problems.”

—Doug McInnis

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**Giving Business Education Consumers What They Want**

*continued from page 11*

Campbell, director of the MS in Finance program, the practicum, now in its third year, is a “win-win relationship.” Students are able to apply concepts within the business world, and the company gets a project completed.

As with the accountancy program, student interest in the finance program is growing. “We have seen substantial growth in our application pool,” Campbell says, “particularly for those with engineering and computer science backgrounds seeking new opportunities in financial engineering and risk management.”

Campbell attributes part of this success to the relevancy of the curriculum. “We’re a general finance program so we’re able to offer students a wide range of courses in finance,” says Campbell. “That’s important. It allows us to give students options. Students think they know what they’re interested in, and then get a sample of something else and change their minds.” The program also receives positive feedback about the half-semester intensive classes that offer students a chance to customize their program by studying a particular area in depth or learning about a wider range of finance topics.

For Park, who earned his undergraduate degree in religious studies, the goal is to study corporate finance and investments and work in investment management in the US or East Asia after completing his MS in Finance.

According to Solomon, all of the College of Business masters’ programs are about gaining knowledge to adapt to the changing nature of the business world. “We teach you how to teach yourself,” says Solomon. “We give students a solid foundation that is broad enough, strong enough, for future learning. We can’t help people learn everything they need to know to support their career. But we give them the foundation to grow.”

—Lauren Eichmann

For more information on the College’s MS programs, visit the following websites:

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What was once considered typical when planning a wedding has become anything but. No longer is June always the preferred wedding month, nor is an indoor church setting the typical first consideration for location. While guests continue to bring gifts to the bride and groom, many newly married couples now shower guests with gifts in appreciation for attending the wedding. Small receptions of cake and punch have given way to lavish parties with open bars and five-course meals. Today’s weddings are anything but typical—and their price tags reflect that fact.

“What fascinates me is why we spend this amount of money on certain occasions that are short lived, but that seem to have incredible sociological and familial significance,” says Cele Otnes, a professor of marketing, who researches ritual-based consumer behavior. “As a society we spend approximately $450 billion per year on gifts, and weddings now cost an average of $26,000 in the US. Consumer culture is fun, yes, but it can also be overwhelming and wasteful. So what are we doing, and why are we doing it?” Otnes has spent 15 years researching the answers to those questions—first, looking at gift giving in the context of Christmas and from there branching out to examine consumer behavior and the cultural ritual of weddings.

**Match Making and Magic Making**

The conventional wisdom regarding why weddings are so compelling has been that they are an opportunity to cement or raise a person’s social standing: a way to win friends and impress neighbors. But Otnes and her colleague Elizabeth H. Pleck, a University of Illinois professor of history, believe that such an explanation does not adequately consider the emotional benefits...
The Business of Getting Hitched

Just how do marketers and advertisers shape this pursuit of perfection? According to Otnes, it's all in the message. With a growing number of specialty magazines, television programs, wedding websites, and all-out marketing efforts by retailers, consumers don't have to look far to hear it loud and clear.

"Almost all of the magazines and other marketing resources are highly consistent in reinforcing the message that the wedding is the bride's 'one day to be a princess,' that we all deserve this day of luxury, and that it's worth going into debt for," says Otnes. "Basically it takes the entitlement that consumer culture supports as a philosophy of life to the ultimate extreme."

The growth in the wedding industry is proof that consumers are listening to the marketing message. Otnes points out that in 2003, the average cost for a wedding was $22,000 compared to the $26,800 average estimated for 2006 nuptials. With nearly 2.3 million couples expected to tie the knot this year, industry observers like TheWeddingReport.com predict that the market value of goods and services directly and indirectly associated with weddings could top $139 billion in 2006.

But it's not just the dollars spent that prove marketers are getting their point across. It's consumers' behavior, too. According to Otnes, "consumers can often parrot back lines that advertisers have created solely to support the sale and continued escalation of goods and services. For example, one woman we interviewed said that when she and her fiancé shopped for wedding rings, they kept in mind the rule that a ring should cost 'two months' salary.' This is a line straight from De Beers advertising, which they created in order to impose a ritual script onto the purchase of a diamond wedding ring."

people derive from these occasions and rituals. So Otnes and Pleck researched the subject, and the result of their work is Cinderella Dreams: The Allure of the Lavish Wedding, published in 2003 by the University of California Press. In the book, they argue that the lavish wedding serves several purposes. First, it allows people to experience magic in their lives. "On a day-to-day level our lives are pretty mundane; we go to work, to the grocery store, we take our kids to music lessons. Occasionally we want to feel magic," says Otnes. Second, it helps us generate positive memories so that we can hold on to particular moments in our lives. As Otnes notes, most people will generally never feel more youthful, beautiful, or celebrity-like, than on their wedding day.

Third, the lavish wedding allows us to indulge our romance with consumer goods. "Most of us don't have the resources to indulge to the extent we are told to by advertisers and marketers," says Otnes. "For example, you can't turn a page in Vogue these days without seeing an $800 or $1,500 purse. Well, I'm not going to spend $1,500 on a purse, but I might spend $1,000 on a wedding dress for my daughter, if it's one of the most special days of her life and it means that much to her."

Finally, occasions like weddings provide people with the rationale to experience so-called "perfection" in the context of consumer goods. Perfection is represented by what Otnes calls "quintessential objects." These are objects that represent for us the best of the best. Within the context of the wedding, acquiring the ultimate gown or hosting the ultimate reception can help consumers feel they have climbed the pinnacle and achieved a goal of perfection, as allusive and individual as that goal may be. So within the context of ritualistic consumption, perfection can be generalized to the pursuit of the perfect wedding, the perfect Christmas, the perfect Valentine's Day dinner, the perfect honeymoon.
Creating Rituals for Marketers

These days Otnes is examining a new topic: how can marketers ritualize consumption in order to enhance consumer satisfaction and trust and to increase positive word-of-mouth behavior? She and doctoral student Behice Ece Ilhan will actually design a field experiment where they create rituals for marketers. Half of the consumers who visit the service providers in the field experiment will receive the rituals, and half will not. The research team will then study whether consumers who receive rituals (e.g., a small gift ceremony after making a purchase) are more satisfied with the service providers, trust them more, and intend to use these providers in the future.

For example, purchasing a bottle of wine could be made more ritualistic if the retailer teaches consumers a special toast that would be appropriate to use with that wine. Maybe the toast is even in French, which could further enhance the consumer’s belief that it would impress their guests and enhance their own experience with the product. To ritualize the purchase process, a retailer could provide such a toast on a card, explain the significance of the toast to the consumer, and perhaps even offer a small gift to show appreciation for the consumer’s business.

“Marketers do this kind of thing a lot, but they don’t necessarily understand it as a ritual,” says Otnes. Consumer behavior research consistently shows that consumers really appreciate and adhere to ritualistic behavior, so it’s likely that rituals could add value to a product or service as well. This kind of information is important as marketers look for innovative ways to increase sales, create marketing strategies, and implement advertising. “There is a huge body of research that explores the significance of rituals in consumers’ lives and that we should be able to apply in the creation of marketing strategy,” she says.

“Buying In” to Consumer Culture

Has all this research about ritualistic consumption influenced Otnes’ own life? “Of course!” she says with a laugh. For Otnes and her colleagues who study Christmas gift-giving rituals in particular, the holiday—which comes at the end of the fall semester and coincides with enormous work responsibilities and their own holiday tasks—is particularly tough. But Otnes, like millions of other consumers, is not ready to opt out of Christmas gift giving or other consumer traditions. She cautions that there can be very real social and emotional costs to not “buying in” to the American belief that consumer culture, whether in the form of gift giving or lavish weddings, is worth commemorating by participating in ritualistic consumption. These costs can include feeling ostracized or stigmatized by social groups who insist upon ritual participation or feeling regret, guilt, and isolation for not having done so.

Otnes is intentionally not judgmental about consumption. What intrigues her are the reasons behind gift giving and consumption in general, not in judging its positives and negatives. “Face it,” she says. “Consumer culture is fun; it’s Disney, credit cards, stuff, variety, innovation. It rewards entrepreneurs. Besides, if you grew up in the Disney culture and always wanted to be a princess and your dad’s willing to fork out $25,000 for your wedding, it’s your decision,” she says. “But those who consider it overwhelming and wasteful have a legitimate point as well.”

— Deb Aronson

Weddings are Big Business

Nearly 2.3 million couples will be married in the US in 2006. And with an average price tag of $26,800, matrimony means big money. Here’s what today’s couples are spending to tie the knot:

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<td>Flowers</td>
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<td>Stationery</td>
<td>$809</td>
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<td>Transportation</td>
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banks competing in local banking markets because many mergers have taken the form of a large bank acquiring a smaller one in a market where the large bank had no prior operations. However, these changes have meant that large, multi-market banks now increasingly compete with smaller community banks in many markets. There is concern that small businesses and consumers may be adversely affected by these changes because large, multi-market banks make lending decisions based almost entirely on public financial information, while smaller banks tend to base their decisions on information such as the potential borrower’s “character.”

The US banking industry has been experiencing a very noticeable and rapid change in recent years. In towns and cities across the country, especially in smaller and mid-sized communities, the signs on once-familiar banks are now displaying new names. And in many cases, these signs have changed more than once over a relatively short time.

To consumers, the changes may seem minimal—a new logo on their checks or a new name to remember. But does the changing landscape of the banking market have broader implications for the individual customer, especially those in smaller communities? That is a question explored in the research of George Pennacchi, professor of finance, and Kwangwoo Park, a former student and currently a faculty member at the Korea Advanced Institute of Science and Technology.

Where Did All the Banks Go?

In 1984, there were 14,482 commercial banks in the United States. By 2004, that number had dropped to 7,630. During the same 20-year period, the average assets of banks (in 2004 dollars) more than tripled from $276 million to $1.1 billion. Factors behind these statistics include advances in information technology, which make it easier to manage a large number of bank branches dispersed over a wide area, and a loosening of regulations on banks’ branching and acquisitions into new geographical areas. As a result, large banks have merged with or acquired smaller local banks in areas farther and farther from their original locations. There are many examples of banks that have grown by acquiring numbers of smaller banks, including Banc One (itself acquired by J.P. Morgan-Chase in 2004), Fleet (itself acquired by Bank of America in 2003), and Wachovia.

While banks have become fewer in number and larger on average, there has been no significant trend in the number of banks competing in local banking markets because many mergers have taken the form of a large bank acquiring a smaller one in a market where the large bank had no prior operations. However, these changes have meant that large, multi-market banks now increasingly compete with smaller community banks in many markets. There is concern that small businesses and consumers may be adversely affected by these changes because large, multi-market banks make lending decisions based almost entirely on public financial information, while smaller banks tend to base their decisions on information such as the potential borrower’s “character.”

Competition and Rate Setting

Pennacchi and Park investigated the effects that bank expansion and consolidation have on local banking markets and on borrowers and savers in those markets. Specifically, they focused on the effects of mergers that do not reduce the total number of banks in a market, but rather extend large banks into new markets.

They developed a mathematical modeling tool that accounts for some of the differences between large, multi-market banks and small, single-market banks. The size and organizational complexity of large, multi-market banks mean operating costs for retail loans and deposits are different than they are for smaller banks. The multi-market banks standardize their services and choose retail interest rates that are uniform across markets and reflect the average of the competitive conditions in all the markets. In addition, because of their size, the multi-market banks have access to wholesale sources of funding, while most small banks do not. However, a small bank is able to set retail loan and deposit interest rates based on the particular competitive conditions in its single market.
Pennacchi and Park applied the model to analyze how the differences between large, multi-market banks and their smaller rivals affect competition when multi-market banks are a growing presence in local banking markets. After running the models based on a number of variables, they found that a greater presence of large, multi-market banks in a local banking market may promote competition in retail loans but reduce competition for retail deposits. The large banks use their size advantages, including access to wholesale funding, to set loan interest rates lower than those of the small, local bank. However, when it comes to interest on deposits, the multi-market banks are less willing to compete for savings deposits by means of higher interest rates—probably because their access to wholesale funds makes scrambling for consumer deposits unnecessary.

**What It Means for the Consumer**

Pennacchi and Park’s research concludes that if large, multi-market banks have a significant funding advantage (access to wholesale funding) that is not offset by a disadvantage in the operating costs of loans, their rates for retail loans will be lower than those of their smaller bank competitors, especially in more concentrated markets. That puts competitive pressure on small, local banks to lower their loan rates, which benefits the consumer.

For deposits, however, the effect is just the opposite. Because large banks have access to wholesale funding, they will not compete aggressively for higher-cost retail deposits. As a result, the smaller banks pay lower interest rates for retail deposits than they would if they had only local competition. Therefore, mergers that result in the extension of large banks into more and wider markets are likely to benefit small business borrowers but make it hard for depositors to earn higher interest on their deposits.

**Fact File**

- There are half as many commercial banks in the US today as there were 20 years ago, and the average assets of those remaining banks have tripled.
- The presence of large, multi-market banks in a smaller, local banking market may promote competition in retail loans but reduce competition for retail deposits.
- While this competition benefits borrowers by leading to lower loan rates, it also makes it difficult to earn higher interest on deposits.
- Research on changing banking markets has implications for other industries where competitors operate in multiple markets and set prices uniformly.

**Beyond Banking**

Although Pennacchi and Park’s analysis was done in the context of the markets for banking, the theory they developed is applicable to any industry in which some competitors operate in multiple markets and set prices uniformly. For example, the model could be applied to chain store retailers (such as Wal-Mart, Home Depot, or Starbucks) whose centralized management sets identical prices over a wide geographic area. Such firms would enhance competition primarily in concentrated markets, forcing a lowering of prices by their single-market competitors. As in the case of banking, the general effect of multi-market competitors is to reduce the variation in prices.

According to Pennacchi, an obvious implication of this research for antitrust policy and enforcement is that regulators need not be unduly concerned or feel the need to intervene if a multi-market firm that sets uniform prices gains a large market share in a small, local market.

— Janet Fitch

George G. Pennacchi is a professor of finance and a co-director of the Office for Banking Research at the University of Illinois at Urbana-Champaign. He also serves as the program coordinator for deposit insurance at the Federal Deposit Insurance Corporation’s Center for Financial Research and is a research associate at the Federal Reserve Bank of Cleveland. He joined the University of Illinois faculty in 1990. Pennacchi received a ScB degree in applied mathematics from Brown University in 1977 and a PhD in economics from the Massachusetts Institute of Technology in 1984.

Kwangwoo Park received his PhD in finance from the University of Illinois in 2003. He is now a professor at the Korea Advanced Institute of Science and Technology.
For millions of today’s consumers, shopping still means putting on your shoes and heading to the mall. But that doesn’t mean those consumers aren’t also taking advantage of other retail options. In fact, the number of buyers who routinely use the Internet and catalogs to make retail purchases continues to grow steadily. Understanding what influences consumers’ channel choices is critical to a retailer’s bottom line.

Research conducted by Ursula Sullivan, assistant professor of business administration, provides retailers with just such information. Together with colleague Jacquelyn Thomas of Northwestern University, Sullivan has studied how existing statistical techniques can be used to assess and predict a buyer’s pattern of multi-channel purchases from the same retailer. They have investigated whether there are significant differences in the length of the active relationship with the firm, the frequency of purchases, the amount of cross buying, and the total order dollars across customers who choose to purchase from the various combinations of channels a retailer offers.

They used a common model to assess repeat buying by customers across and within channels and applied the model to data from a major US retailer with three distinct channels of distribution: (1) physical retail stores in 25 major markets, (2) catalog sales that cover their basic merchandise as well as sale items, and (3) an online presence that allows customers to develop “self-help” solutions and purchase the products best suited to their needs. As is true for most retailers, this firm first used physical stores for distribution, then moved to catalogs, and finally introduced an Internet channel.

Will Your Feet or Your Fingers Do the Walking?

In their study, Sullivan and Thomas focused on the channel choice for repeat purchases, which is more complex than the basic channel-choice problem, where the goal is the current transaction. For a repeat purchase, the consumer is building on a relationship that has already been established, and so aspects of the existing relationship must also be considered. Sullivan and Thomas studied product type, product price, and the length and quality of the relationship with the firm as they analyzed the data.

Their research indicated that most customers who make their first purchase from a store tend to choose catalog or Internet channels for repeat buying. The more times the person visits the store, the more likely she is to make catalog and Internet purchases. This is not surprising considering that customers visit a
Changing Channels: What Does It Mean to Retailers?

When comparing a store-only customer with an Internet-only customer, Sullivan and Thomas found that the store-only customer is an active customer longer, purchases more frequently, buys from more product categories, and spends more than a catalog-only or an Internet-only customer. There do not appear to be any differences in behavior between catalog-only or Internet-only customers.

For customers who buy from two of a firm’s channels, the results are a bit more complex. A customer who buys from one set of two channels is different from one who buys from a different set of channels. For example, when a customer buys from both a retail store and a catalog or from a retail store and the Internet, the relationship with the firm tends to last longer than it does for a shopper who buys from a catalog and the Internet. This suggests that the retail store may be the crucial factor in establishing a long-term relationship with a customer. Furthermore, the customer who uses the retail store plus the catalog tends to have a longer relationship with a firm than one who uses the retail store and the Internet.

When it comes to the frequency of purchases, customers who use the catalog plus the Internet tend to buy more frequently than those who use the store and catalog channels or the store and Internet channels. Thus, it seems that a customer who only buys remotely tends to buy more often than a customer who actually visits a store.

The researchers’ data also suggest that two-channel users also differ in the total amount they spend. Customers who use the physical store when they need guidance in making a purchase. As they build a relationship with a retailer and know their products, buyers need less guidance and feel more comfortable ordering by catalog or online.

Channel Equity and Channel Promotion

In their study, Sullivan and Thomas introduce the concept of channel equity—that is, the net present value of the current and future profits generated through a distribution channel. This is derived from all interactions from all customers who patronize a retail channel but also includes the expenses that the firm incurs as a result of operating the channel. Although they coined the term “channel equity,” Sullivan and Thomas point out that the concept has been well understood by practitioners. For instance, computer manufacturer Gateway used the concept in deciding to close its stores while continuing to operate its Internet and catalog outlets.

Knowledge about consumer behavior in various combinations of channels can also directly affect a firm’s communication and promotion efforts. In anticipation of future channel choices, a firm might position a specific message in a specific channel. Taking this one step further, if a firm has information about the sequence in which consumers adopt products, it can even differentiate between the channels in which specific products are promoted and offered.

—Janet Fitch

Fact File

- The physical retail store is crucial to the development of a long-term relationship with the customer.
- Customers who use the store and catalog channels spend the most money—even more than those who use all three channels.
- Customers who use the catalog plus the Internet tend to be the most frequent buyers.
- Adding an online channel will not necessarily increase sales but instead will move sales from the store or catalog to the Internet option.

Using All the Options

According to Sullivan and Thomas, customers who use all three channels fit the following profile: they are active customers over a longer period of time, purchase more frequently, buy more categories of goods, and generally spend more than any two-channel user. Two-channel customers who use the store and catalog options are the exception. Those consumers spend significantly more than a three-channel shopper.

For online retailers, this is important information. Specifically, it suggests that when customers become a certain kind of multi-channel user, their spending is not likely to increase just because they begin using the Internet channel. In fact, they are more likely to use the Internet to make purchases that they would have made in the store or from the catalog, so they’re actually replacing one channel with another rather than increasing their purchases. These findings provide valuable information for firms as they consider establishing an online presence and for those who might have rushed into the online market assuming it would automatically increase sales.

Ursula Y. Sullivan joined the University of Illinois College of Business in 2002. She received a BBA in international business from the University of Texas at Austin and an MS and PhD in marketing from Northwestern University. Her research focuses on managing marketing channels, distribution alliances, and channel strategy, and her teaching responsibilities include purchasing and supply management and marketing to business and government.
It is estimated that insurance fraud is an $80 billion problem each year in this country. How does this crime affect the individual consumer?

Insurance fraud raises the cost of insurance for everyone. Consumers make a choice between bearing a risk themselves or transferring the risk to an insurance company by paying a premium. Fraudulent claims, along with the added cost to investigate them, increase the cost of insurance to all consumers, forcing some of them to decide to retain the risk themselves rather than paying the higher premium.

In extreme cases, insurance markets in a particular neighborhood or for a particular type of insurance simply may no longer function as an effective method of transferring risk if the incidence of fraud is too high. This means insurance companies may not be willing to write policies for certain types of risk. This lack of access to affordable insurance has a significant impact on consumers because it means the individual is forced to retain the entire risk.

Consumers bear the cost of insurance fraud. Even though the crime is not committed directly against them, they pay the price in the form of higher premiums or accepting greater risk. To the extent that insurers can efficiently identify claims with a high potential for fraud, the cost of insurance can be reduced and market problems associated with an excessive rate of fraud can be avoided.

What is the insurance industry doing to combat insurance fraud?

Insurance companies are working individually, in connection with other insurance companies, and in cooperation with law enforcement authorities to avoid paying fraudulent claims and to prosecute those suspected of participating in fraudulent activities. However, reducing fraud is not easy. In some jurisdictions, the law enforcement authorities do not place a high priority on insurance fraud, which tends to increase the incidence of fraud. In other cases, the courts, either judges or juries, may require an unreasonable level of proof to find someone guilty of insurance fraud, or they set the penalty for fraud so low that it does not serve as a deterrent. Also, some insurers find it less costly to pay suspicious claims than to fully investigate them for fraud. Industry reports indicate that this behavior also encourages more fraud to occur.

Technology has provided new tools to identify unusual patterns in insurance claims that can help insurers identify which claims are most likely to include some fraud. For instance, I am currently conducting a research project at the National Center for Supercomputing Applications that examines these trends. We have over 500,000 automobile insurance claims from Massachusetts in a database, with information on the type of injury, lawyers, doctors, dates of treatment, results of independent medical examinations, and other significant data.
Our supercomputing resources allow us to analyze this massive amount of data to discern trends that might not otherwise be obvious. For instance, for the Massachusetts data the analysis revealed that there may be a seasonality to fraudulent claim activity. By analyzing the dates of reported accidents, a pattern emerged that showed an increase in suspicious claims during the last three months of each year. The data also provided important information about unusual patterns or combinations of medical providers and attorneys that warrant a second look. We may only be able to speculate as to why fraud may be associated with certain months, certain individuals, or certain behaviors, but when the data show a clear connection, insurance companies can use this information to predict when and where fraudulent claim activity is most likely to occur so they can focus their efforts on investigating those claims most likely to include some fraud.

This type of predictive modeling approach arms insurance companies with information that can help protect the industry and the consumer, lower fraud, and keep insurance prices in check. Certainly, everyone benefits from that.

Consumers are very price conscious when it comes to selecting insurance carriers. How do insurance companies determine pricing?

Insurance is unique in that the price has to be determined before the cost of the product is known. Insurers project future losses based on historical information to estimate the cost of providing insurance coverage. The physical characteristics of the property to be insured, the location and use of the property, and, for auto insurance, information about the drivers are all used to set the insurance premium. Historically, insurers used such factors as age and driving record to price auto insurance.

Recently, some insurers discovered a relationship between credit score and automobile accidents. People who are careful about managing their finances also seem to be careful drivers. This has allowed insurers to lower premiums for people with good credit histories. Another innovation is to charge for auto insurance based on the actual use of the vehicle. By installing special recording devices in cars, it is possible to have insurance premiums be based on how much someone uses the car, when they use it, and even where they drive. This would be similar to the way telephone bills are determined.

Competition is an important factor in the insurance industry, as hundreds of insurers compete to write the common types of policies. Since consumers tend to shop for low insurance prices, occasionally insurance price wars break out, with companies reducing prices below their best estimate of future costs in an attempt to gain or maintain market share. Since insurance prices are set before the losses are known, there is a lag before many companies realize when prices are too low. The reaction to this discovery is typically to raise prices substantially and restrict writing anything but the best business. These insurance cycles cost the industry profitability and cause problems for consumers.

Things are slowly changing in this regard as companies come to understand the importance and effectiveness of mathematical modeling as a strategy for determining pricing. The insurance industry is cyclical because of competition, but using mathematical modeling can make it less so. Effective modeling gives the company information about the appropriate price. It is an objective process that employs sound financial principles and eliminates reliance on trial and error. If companies use a mathematical model to fine-tune their financial principles, they will make better decisions, which should equate to fair pricing and satisfied consumers.

Companies are reluctant to share what they are doing in regard to modeling, since this can provide them with a competitive advantage. However, if the companies are working independently, progress in this area will be slow. If we expect to advance the science of mathematical modeling for insurance companies, it’s essential that we be transparent about it. That is one way academics can help in this process, by working on models, publishing the results of their research, and teaching these skills to students and practitioners.

What is Enterprise Risk Management and how does it impact consumers?

Enterprise Risk Management (ERM) is considering all the significant risks facing an organization in aggregate. Some of the different types of risk are: (1) hazard risk, which involves the loss of property or injury to a person; (2) financial risk, which relates to the gain or loss of financial assets, by fluctuations in interest rates, market values, inflation rate, foreign exchange rates, or other systematic variation; (3) operational risk, which occurs when internal processes, people, or systems function poorly, and (4) strategic risk, which applies when the business plan of an organization is affected by competition, by regulation, or by technological innovation.

ERM is primarily an approach for organizations to use. If used effectively, ERM will reduce the number of businesses that get into serious difficulty by overlooking an aspect of their operations. It should prevent companies from getting into trouble when a single officer takes action that damages the organization, or from discovering too late that they are exposed to a major risk. ERM seeks to measure and address the full range of risks an organization faces and to consider the relationships among different risks to see if they offset each other or if they combine to increase an organization’s exposure. Appropriate application of ERM should reduce shocks to companies that cost employees their jobs or stockholders their investments.

Consumers could also apply some of the principles of ERM. An example would be to avoid investing heavily in the company at which you work, since if the company gets into financial difficulty you could lose your job (which would be a hazard risk) and your investment (which would be a financial risk) at the same time.

Editor’s Note:
4 for 4 is a regular feature of Perspectives, which allows us to catch up with College newsmakers. We pose four questions and share the answers here.
Entrepreneur Sam Zell Shares Philosophy of Success
The College of Business welcomed real estate entrepreneur Sam Zell, founder and chairman of Equity Group Investments, LLC, an entrepreneurial investment firm, to campus in late January. Zell spoke to a standing-room only crowd of over 400 students, faculty, and community members about his business outlook and personal philosophy. “Being a leader is all about execution, and how to maximize your ideas,” he said.

Having learned the power of persuasion at a young age, Zell went on to a career focused on leadership, selling ideas and concepts. “Nothing is bought,” he said. “Everything gets sold.” He talked about his “unjustifiable self-confidence” and how standing alone and taking risks led to his success. “My greatest enemy was conventional wisdom,” said Zell. “I’ve been willing to walk right when everybody else walks left.”

Fortune magazine described Zell as the person who controls more commercial real estate than anyone else in the country. The College of Law co-hosted his visit, which was arranged by University of Illinois President B. Joseph White.

Entrepreneurship and Technological Change Research Funded
Rajshree Agarwal, associate professor of business administration, received two grants from the Kauffman Foundation totaling nearly $700,000. She is the chief investigator on a $665,500 three-year, multi-institutional, multi-project grant that will research entrepreneurship and technological change. The research projects will test Agarwal’s thesis that entrepreneurial initiative and technological innovation are the key drivers of firm and industry evolution. The reasons and the process behind the genesis of new firms and industries, the capabilities and strategies that affect their development and co-evolution, and the implications for firm performance and technological progress will be examined.

In her role as program chair for the entrepreneurship and strategy interest group in the Strategic Management Society, Agarwal received $20,000 from Kauffman to create a junior faculty workshop at the Society’s annual meetings last October.

An Asset of Extraordinary Value
Citizens of Illinois enjoy significant benefits from the presence of the three campuses of the University of Illinois. B. Joseph White, president of the university, introduced ten ways that the university is helping to create a “prosperous future for the people of Illinois, the nation, and the world” in a widely disseminated brochure. White says that the knowledge derived from research creates new industries, companies, and jobs and calls the university “an asset of extraordinary value” in the state.

For the brochure, College of Business alumna Yasmin Bates was selected to illustrate the impact of University of Illinois business graduates on US business. Bates is executive VP at Harris Trust and Savings Bank and holds a BS in marketing. According to a 2005 Standard & Poor’s report, more U of I graduates lead major US corporations than graduates of any other university in Illinois. More than 1,000 CEOs, CFOs, COOs, owners, presidents, and financial officers were educated at Illinois. Northwestern is second with 789 executives.

Other impacts on the state’s bottom line because of the presence of the three University of Illinois campuses include $46 million a year spent by visitors, employees, and students on athletics and cultural events and the more than $675 million in federal grants and contracts that flow into the state. The campuses generate more than 100,000 jobs in Illinois, and student and visitor spending generates another 90,000 jobs.

The Impact Illinois brochure was produced by the Office for University Relations. A copy can be viewed online by visiting: www.uillinois.edu/our/publications/2005-Impact-Illinois.pdf.

International Trade Center Helps Consumers in Illinois, Eastern Europe
The International Trade Center (ITC) in the College of Business worked with Arcola-based Equipment Direct-USA on a project to export used farm equipment to Eastern Europe. Tess Morrison, ITC director and an export specialist, offers services to both new and well-established businesses that are considering exporting to increase their bottom line. Equipment Direct (ED-USA) was profitable prior to exporting, but the connections to Eastern Europe have enhanced the firm’s profitability. With Morrison’s guidance, ED-USA researched the needs of farmers in young economies such as Ukraine, Russia, and Bulgaria. Another ITC client with contacts in Eastern Europe facilitated hiring field staffers who work with individual farmers to determine their equipment needs as well as payment options.

The export market increases the value of the used equipment Midwest farmers trade to ED-USA’s five dealerships when purchasing newer equipment. And their overseas counterparts consider the trade-ins to be of high quality and more advanced than equipment available regionally. Morrison says the program is a win for all the participants.
Illinois Business Consulting (IBC) is a professional consulting firm within the College of Business that provides students with an opportunity to apply what they learn to solve real business problems. Leveraging the expertise of the University and a professional staff that provides training and oversight, select undergraduate and graduate students from across the campus have completed over 600 projects for more than 350 corporate, non-profit, and start-up clients. With flexible start times and modest rates, IBC may be the best answer to your business needs. Invest in Illinois by providing a project opportunity for our students.

Learn more about our ten years of targeted business solutions at www.ibc.uiuc.edu.
A Catalyst for Learning
Friday, April 28, 2006

2:30 - 3:30 PM
The Future of Higher Education
Panel discussion including University of Illinois President B. Joseph White, former President Stanley Ikenberry and Chancellor Richard Herman
141 Wohlers Hall, 1206 S. Sixth Street
RSVP to development@business.uiuc.edu or 217-333-6434

4:00 - 5:00 PM
Groundbreaking Ceremony
Ceremony with reception following
Southwest corner of Sixth and Gregory Streets
RSVP to development@business.uiuc.edu or 217-333-6434

The Business Instructional Facility, a landmark building designed by renowned architect Cesar Pelli for the College of Business at the University of Illinois at Urbana-Champaign will open in the fall of 2008.