KELLOGG SCHOOL OF MANAGEMENT AT NORTHWESTERN UNIVERSITY

KELLOGG

KELLOGG ON FINANCE

Alumni and faculty come together to discuss Kellogg's impact on the financial world

Spring/Summer 2016
VOL. 23 ISSUE 2

FOOTPRINT

FREEMAN WINERY

Five years ago, the leading sommelier at the White House reached out to **Ken Freeman '93**, founder of Freeman Winery in Sebastopol, California. That relationship led Freeman's 2013 Ryo-fu Chardonnay to a White House dinner for Japanese Prime Minister Shinzo Abe in 2015.

From a coveted place at the White House dinner table to a Kellogg alumni tasting in Tokyo, Freeman wines have made their mark as both high-end and accessible. In addition to selling directly to consumers, Freeman wines are also distributed to some of the world's finest restaurants and wine shops.

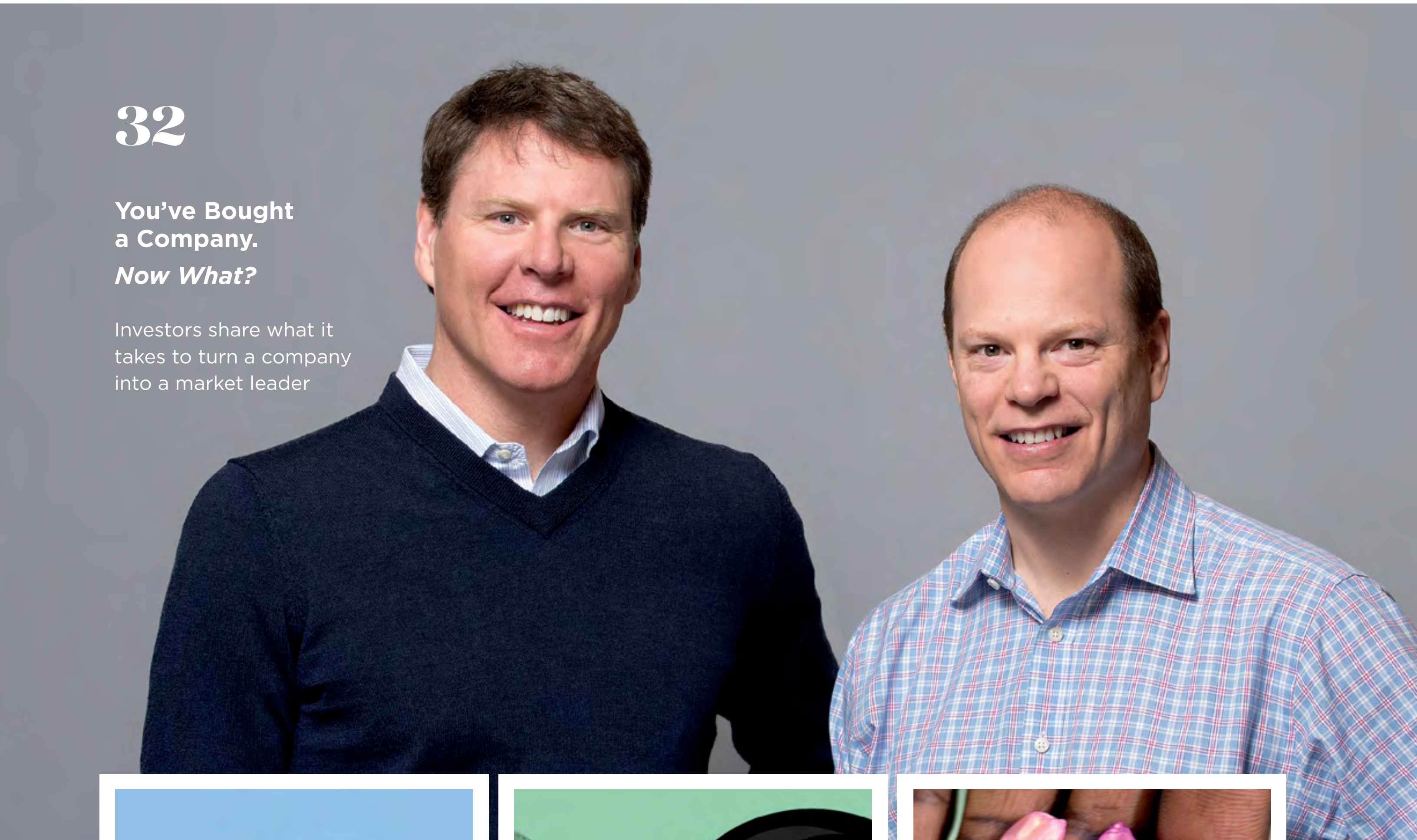
With passion and a plan, Freeman and his wife, Akiko, founded the winery in 2001 with the goal of producing cool-climate pinot noirs and chardonnays that would eventually reach the Japanese market. The couple believed an understanding of the global market (Freeman previously worked for Discovery Channel Asia and is currently managing director of Harpeth Fund Advisors), combined with Akiko's talent as winemaker, would create the right pace for growth.

Freeman credits the winery's success to a clear plan. "We knew exactly the types of wine we wanted to focus on, the region where we wanted to grow, and that we wanted a strong direct-to-consumer approach," he says. "Now our goal is to grow that consumer base all around the world — our next stop: Colombia."

PHOTO BY JULIA ROBBS

FINDING VALUE

Value is everywhere. From projects that sit on a back burner to companies that need a slight pivot. It's a matter of finding and identifying that value. The question is: *Where you do start?*



ON THE COVER

Just a few of our heavy hitters in finance. (From Left) Madison Industries CEO and President **Larry Gies '92**, finance professors **Mitchell Petersen** and **Jan Eberly**, and **Jerry Kenney '67**, a senior adviser at BlackRock.

PHOTO BY JEFF SCIORTINO

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Spring/Summer 2016
VOLUME 23 ISSUE 2

Postmaster: Send address changes to: Northwestern University, 633 Clark Street, Evanston, IL 60208-1114

Kellogg (USPS 009-272) is published by Northwestern University/Kellogg School of Management, 633 Clark Street, Evanston, IL 60208-1114, and is issued twice during the year: Spring/Summer and Fall/Winter.

The driving theme behind building Kellogg's new Venture Capital and Private Equity (VC/PE) pathway is to identify, explore and exploit the potential hidden sources of value in entrepreneurial and closely-held firms.

Traditionally, Kellogg students have always been interested in venture capital and private equity. But today, many students want to either start up their own company, work for an entrepreneurial firm, or work outside corporate America.

In these settings, graduates will need to be a little bit of everything: CEO, CMO, COO and CFO. They will need the skills to secure the best funding for their growing enterprise. Therefore, the traditional tools we teach in corporate finance classes need to be adapted for entrepreneurs.

Kellogg's VC/PE pathway provides students interested in managing entrepreneurial firms to acquire the necessary skills to do so. The tools covered in these classes are specific to the needs of entrepreneurial firms. Understanding these specific tools is essential for both the entrepreneurs and the investors.

At the same time, the pathway gives students the framework and tools to successfully conduct venture capital and private equity transactions domestically and internationally, execute mergers and acquisitions, and engage in corporate restructuring activities.

Divided into three sub-tracts, the pathway examines the life evolution of a firm in a way that is highly interdisciplinary, from understanding how to value and manage a venture at a very early stage, to learning how to operate a firm in its growth equity stage, to navigating and executing the complex financial transactions of more mature firms.

Whether students want to start a company, grow a company or work for a venture capital or private equity firm, our new pathway provides the skills necessary to achieve those goals. And as you'll read in this issue of *Kellogg,* many of our alumni have put those types of skills to use.

Paola Sapienza
Donald C. Clark/HSBC Chair in Consumer Finance
Zell Center Faculty Fellow

WILL MOBILE KILL THE INTERNET STAR?

Alumni weigh in on the rise of m-commerce

JARED SIMON & CHHAYA DAVE

E-commerce, or online in lieu of in a retail store, is now part of everyday life. From mom-and-pop shops to Amazon.com, retailers have made it easier than ever to purchase anything you need from the comfort of your home, as long as you have an Internet connection and a credit or debit card.

But shopping on your mobile phone — or m-commerce — is an evolving trend that has different psychological implications. **Jared Simon '02**, co-founder and chief operating officer of hotel search app HotelTonight, and **Chhaya Dave '05**, senior director of product management for Cars.com, discuss the ways m-commerce differs from shopping on a computer or in a brick-and-mortar store.

JARED SIMON '02
CO-FOUNDER/COO, HOTELTONIGHT.COM

After Kellogg: Before co-founding HotelTonight in 2010 with **Sam Shank '04**, Simon worked for TurnHere, a web video/photo aggregation company.

CAN E- AND M-COMMERCE COEXIST?

"Yes. Each platform has its strengths and weaknesses, and the key to succeeding on any platform is designing a service that maximizes its particular strengths."

Are consumers' habits different on mobile apps than on a desktop or laptop computer?

Simon: Mobile purchases tend to be more spontaneous. We've found that consumers prefer a much more focused experience with mobile apps. Desktop websites can get away with longer product lists and more clutter from callouts and other design flourishes. But the most effective mobile experiences are clean and focused.

Dave: It depends on the industry. With Walgreens, for example, people use mobile for very specific tasks like pharmacy and photo orders. On Cars.com, a lot of the browsing happens on a desktop computer. But as they get closer to a purchase, certainly mobile plays a much bigger role because there's a lot more chatting, texting and engagement with the dealer.

How does online purchasing (e- or m-commerce) impact retail purchasing in general?

S: Mobile commerce is a good companion that allows you to use the real world to inform your decisions and empowers you when you're actually shopping in person, because you can research products in the store. Many of our customers love the service because it empowers them to check out a neighborhood in person before booking their hotel for the night.

D: If you asked me that question a year ago or the year before, my answer would've been that retail and foot traffic are as strong as ever. But now, people can have clothing delivered to their homes, try them out and return them if necessary, and the process has never been easier. I don't think specialty shops that cater to niche audiences are going anywhere because the trend with the new generation is that they are very specific and unique. If anything, specialty stores will become more niche, but big-box stores will probably have to start rethinking their strategies.

Are there increased safety concerns related to making purchases on mobile devices versus desktops or laptops?

S: I think there are valid concerns, but you just have to deal with reputable companies that aren't fly-by-night. The nice thing about mobile apps is you can look at ratings and discussions from past users in a way that you can't on a regular website. We do take security very seriously and have implemented innovative ways to secure commerce on our app.

D: Security and protocols will just get better as the technologies evolve, and it's the Facebooks, Twitters and Googles of the world that help with that. Anything digital is accessible in any corner of the world, but the industry will keep up with the changing dynamics.

Interviews condensed and edited for clarity.

BY DUSTIN J. SEIBERT ILLUSTRATION BY NICOLE LEGAULT

CHHAYA DAVE '05
SENIOR DIRECTOR OF PRODUCT MANAGEMENT, CARS.COM

After Kellogg: Before joining Cars.com in 2003, Chhaya worked in a product management capacity for several companies, including Sears and Walgreens.

CAN E- AND M-COMMERCE COEXIST?

"There is no doubt they can. This is the era of omni-channel commerce; if you put items in your Amazon shopping cart from your desktop or laptop, you will be able to push the buy button from the integrated tablet built into the refrigerator."

PHOTO © JEFF SCIORTINO

PURSUING KELLOGG'S VISION

MATTHEW MERRICK BRINGS EXPERIENCE AND COMMITMENT TO HIS NEW ROLE AS ASSOCIATE DEAN — DEGREE OPERATIONS

This past fall, Kellogg welcomed Matthew Merrick to Evanston as the new Associate Dean — Degree Operations. In this role, Merrick partners with Kellogg's Senior Associate Dean — Curriculum and Teaching, while overseeing day-to-day operations across all of Kellogg's Full-Time, Evening & Weekend, MS in Management Studies, joint degree and certificate programs. His scope includes admissions, academic experience (registrar, advising and experiential learning), student life and career outcomes.

Merrick has an MBA from Harvard and most recently comes to us from Wake Forest University where he served as the Executive Director, Business Analytics & FTMBA Programs. Prior to his time at Wake Forest, he held senior leadership roles in the private investment banking and the media industries. He also served for several years as the head of Harvard Business School's career services group.

We spoke with Merrick about his plans for Kellogg.

K: What brought you to Kellogg?

MM: Kellogg is a special place and I was first attracted by the reputation of the school and students. Once I learned more, I was drawn in by the energy around its vision and the commitment to growth. I knew that a place that puts "inspiring growth" — particularly personal and professional growth — front and center would be a good fit for me.

K: Where is your focus?

MM: It is all about learning — digging into how things work here and understanding what is important to students. That means lots of great conversations focused on getting to know students and the Kellogg community. As the year progresses, I look forward to meeting everyone and working to pursue our vision.

K: Has anything surprised you?

MM: I certainly had high expectations about the professionalism of Kellogg students, but I have been absolutely blown away by my experience so far. In every conversation, the students I have met have been thoughtful and positive, incredibly well prepared and committed to the school. It has been a terrific introduction.

CAMPAIGN SURPASSES THREE-QUARTERS MARK

MORE THAN $285 MILLION RAISED AS KELLOGG NEARS FUNDRAISING GOAL

As of April 2016, Kellogg has raised more than $285 million of its $350 million goal in the Transforming Together campaign.

Since the start of the 2016 fiscal year, the school has raised over $35 million. The capital campaign, which launched its public phase in late 2013, is slated to end in 2017.

Funding for the school's new Global Hub approaches the three-quarters mark as the building nears completion. Last fall, the school celebrated "topping off" the 410,000-square-foot building as crews raised the structure's final beam and secured it at the roofline. Construction continues on interior spaces with an expected occupancy date of early 2017.

Meanwhile, fundraising for the campaign's other objectives — Thought Leadership, Educational Mission and Global Innovation — are either nearing or have surpassed their targeted goals.

Tim Simonds '98, chief marketing and engagement officer at Kellogg, applauded the campaign's progress toward reaching its goals, praising both the generosity of Kellogg alumni and the excellent work of the school's development team.

"This is an exciting time for us," Simonds said. "We're extremely proud of the progress we've made so far and looking forward to finishing the campaign on a high note."

BRAVE LEADER SERIES

"You should always know what the book on you is."

ELLEN KULLMAN '83
Former CEO, DuPont, on knowing your reputation at a company, during her Brave Leader Series talk

Visit **kell.gg/braveseries** for exclusive video and content.

PHOTO © JUSTIN RUNQUIST

UNPRECEDENTED CHALLENGE URGES ALUMNI TO "MEET US AT A MILLION"

ALUMNI GROUP PLEDGES TO MATCH ANY KLC-LEVEL GIFT UP TO $1 MILLION

New Hope Ecotech, a recycling startup created by Dean's Scholarship recipient **Thaigo Pinto '15**, connects people in poverty with tradable environmental securities, spurring positive change in their lives, their communities and the health of the planet.

MATTER, a med-tech incubator co-founded by Kellogg Clinical Assistant Professor of Innovation and Entrepreneurship **David Schonthal '09**, matches industry players to drive medical and healthcare breakthroughs.

Competition to attract talent like this has never been greater. And Kellogg's Annual Fund makes it possible to continue to attract the best and brightest students, and fund faculty research and endeavors.

Inspired by their own Kellogg experience and the school's bold future plans, 10 distinguished alumni — recent graduates and seasoned luminaries, alike — have established an unprecedented philanthropic challenge for the school's Annual Fund.

They've launched the "Meet us at a Million Challenge," pledging to match any Kellogg Leadership Circle gift ($2,500 and up, $1,000 and up for recent alumni), up to an additional $1 million between May 21 and June 30. The goal is to generate $2 million in impact for the Annual Fund.

"The day before I was going to have to drop out of Kellogg because I didn't have any money, the school gave me a loan that enabled me to complete my degree," says **Keith Rozolis '83**, one of the lead donors and president & CEO of ABC Supply Co. "Like so many of our alumni, someone invested in me, and I wouldn't be where I am today if they had not.

"Kellogg has made so much possible for me, and now it's time for me to give back and pay it forward," adds Rozolis. "I hope other alumni will join me."

MEET US
AT A **MILLION**

How It Works

You donate $2,500 or more ($1,000 or more for recent alumni) before June 30, 2016.

Our lead donors match your gift.

Your gift entitles you to membership in the Kellogg Leadership Circle (KLC), and you receive exclusive benefits.

You tell your friends and fellow alumni. Impressed, inspired, spurred to action, they make a contribution, too. They tell their friends.

We invest your contribution — now twice as powerful — into our exceptional students, faculty, research, curriculum and worldwide initiatives.

Make Great Even Better

Kellogg's reputation and global impact always has depended upon the generosity of alumni. The Annual Fund contributions enable the school to educate, equip and inspire brave leaders who in turn spur growth in people, organizations and markets.

Take last year, for example. Alumni Fund gifts made it possible for Kellogg to raise a record-breaking $6 million — a 39 percent increase over the prior two years.

"This year's goal is to raise $7.5 million," says Annual Giving Director **Katie Taylor**. "Every dollar donated during the Challenge will enable Kellogg to do twice as much."

Annual Fund support provides scholarships for exceptional students, supports trailblazing faculty, drives game-changing research and spurs global innovation. It is a great way to give back and invest in the future of Kellogg.

"Staying relevant is one thing, being truly transformational is something else entirely," says Taylor. "The Annual Fund fuels the kind of innovation that people have come to expect from Kellogg. Your support makes a direct and immediate impact."

Deepest gratitude to the generosity of our 10 lead donors: ***Catherine '94** and **Gary Briggs '89, Rich Byrne '85, Guangfu Cui '03, Bon French '76, Bill Hayes '91, Jenny Lee '01, Carlos Guillermo Leon '94, Keith Rozolis '83, Bruce Spohler '86** and an anonymous donor.*

PHOTO © EDDIE QUINONES

KELLOGG MARKS SIGNIFICANT PROGRESS ON ITS 7-YEAR PLAN FOR TRANSFORMATION

Five years ago, Kellogg mapped out an ambitious 7-year plan to transform business education and set its trajectory for the 21st century. In five years, the work of transformation is largely complete and the school has achieved nearly every milestone:

- Established a distinctive, matrixed approach to thought leadership, faculty research, and curriculum with four cross-disciplinary strategic initiatives and six foundational academic departments, creating a platform for addressing emerging business problems in novel ways
- Raised more than $285 million in the first-ever major capital campaign and doubled contributions to the annual fund
- "Topped off" its 410,000 square foot, one-of-a-kind, lakefront global hub, which has reached a final height of 103 feet
- Rebalanced and strengthened its dynamic degree portfolio to meet market demands, including the growth of the One-Year MBA Program, redesign of the MMM Program, and launch of the new MS in Management Studies Program
- Expanded its unparalleled Executive MBA Global Network — integrating students on four continents and seven campuses

"It is an exciting moment at Kellogg. Our progress is palpable, the teams that we've built across our community are incredible and the path to 2020 is clear," says Dean **Sally Blount '92**.

This March more than 500 faculty, students, staff and alumni gathered in Evanston to mark the school's progress at the State of the School event — Kellogg's first gathering of this kind.

Kellogg has made tremendous progress but the work is not completed. The school continues to drive toward its $350 million fundraising goal and completion of its new building, scheduled to open in 2017.

AN UNPRECEDENTED VISIT

KELLOGG TEAM GRANTED A RARE GLIMPSE OF THE ARMY'S NATIONAL TRAINING CENTER

A team of ten Kellogg faculty and administrators were invited for an extended visit to the Army's National Training Center at Fort Irwin, February 26-28. Located in the Mojave Desert in southern California, it's a place that only a select few beyond the Army soldiers and personnel stationed there ever see.

The visit came about as a result of Kellogg's unique partnership with the Army, which began with its first Senior Fellow in 2012, **Col.** (retired) **Robert Hughes**. Hughes and current Kellogg Army Fellow **Col. Brian Halloran** saw the visit as an opportunity for a premier business school and a leading military operation to exchange insights on leadership training.

During training, soldiers are engaged in maneuvers against a free-thinking enemy who is familiar with the terrain. Following every significant event, the brigade holds a deliberate after-action review process, where they discuss what happened, and how they could improve.

"The idea is to make mistakes, learn and grow in a safe, dynamic, realistic environment," says Halloran.

"Fort Irwin has a true culture of learning," says **Holly Raider**, managing director of Executive Education and clinical professor of management, who was part of the visiting group. "They're equipping leaders with an unexpected quality of humility and openness to the idea that the best answers don't always sit with one individual. That's an important leadership lesson for us all."

BY DREW CALVERT

A GREAT RETURN ON INVESTMENT

KELLOGG'S TOP-TIER FINANCE DEPARTMENT PROVIDES A COMPREHENSIVE LOOK INTO THE WORLD OF CASH FLOWS AND VALUATIONS

Kellogg has always prided itself on its comprehensive approach to finance. Its faculty views the field in terms of its links to the broader economy, and students are taught that finance is more than a set of computational tools — it's a logical framework with implications for strategy, policy and top-level management.

The Kellogg approach has never been more relevant than it is today. In the wake of the 2008 crisis, the link between finance and economics is a subject of widespread concern. And other trends — from the rise of sovereign wealth funds to the granular study of household finance — have only reinforced the need for an interdisciplinary perspective.

"The skills we give our students are meant to serve them throughout their careers," says **Mitchell Petersen**, a professor of finance at Kellogg and director of the Heizer Center for Private Equity and Venture Capital. "We can't predict the future, of course. But we do know that a strategic, wide-lens approach to the subject leads to long-term success, and that informs the way we teach."

In recent years, Kellogg has taken steps to bolster this approach and to build on its expertise in the field. It has hired new faculty members, fostered collaborative networks and expanded its curriculum, all with the aim of ensuring that Kellogg remains a leader in finance education in the face of rapid industry change.

Yet the department remains committed to its core vision and legacy. "It's a combination of broad knowledge and immersion in financial decision-making," says **Torben Andersen**, professor of finance at Kellogg and the current department chair. "Our research runs the gamut of economic disciplines and social sciences. But we also encourage applied learning — we don't just teach the tools, we teach how those tools can improve one's business strategy. We think there's great value in that no matter how the field might change."

A comprehensive, collaborative approach

A pioneer in financial economics, Kellogg's finance department boasts a wide range of specialties, from technical asset pricing to corporate financial policies and capital market dynamics. Its research consistently wins awards — for example, the Smith Breeden Prize for the best paper in the Journal of Finance has gone to a number of Kellogg professors, most recently **Dimitris Papanikolaou**, who won the prize in 2013 and 2014. Now the faculty is taking its cross-disciplinary approach even further.

"It's always been a collaborative department," Andersen says, "and now we are even more diverse," with faculty engaged in fields such as economic history, sociology, industrial organization and game theory. In addition to senior macroeconomists such as **Sergio Rebelo** and **Janice Eberly** — both of whom are renowned experts in economic policy and its impact on global finance — the department has hired a number of specialists in microeconomics, including **Scott Baker**, **Brian Melzer** and **Charles Nathanson**.

"We don't just teach the tools, we teach how those tools can improve one's business strategy. We think there's great value in that no matter how the field might change."

TORBEN ANDERSEN
Nathan S. and Mary P. Sharp Professor of Finance
Department Chair of Finance

"We have moved very strongly into what is known as applied finance," Andersen says. "As a result of the big data revolution, we are now able to look more closely at the firm and household level: how firms choose to hire, how people save for retirement."

Kellogg has also expanded its focus to include the real estate sector. "Ever since the financial crisis, people have started to realize how important the mortgage market can be," says **Efraim Benmelech**, a professor of finance and the director of the Guthrie Center for Real Estate Research, which supports studies on real estate finance and urban economics. "And the department has produced some extremely high-quality research on this subject."

Strategic finance, applied

In addition to reinforcing its comprehensive approach to research, the Kellogg finance department is also expanding and enriching its curriculum to address market developments, innovations and student demand. But the department's focus on what Petersen calls "strategic finance" — as opposed to "tactical finance" — is still at the core of its teaching philosophy.

"Tactical finance is all about the mechanics," Petersen says. "How to calculate cash flow, how to price an option — this is the grammar and spelling of finance, and it's essential for any business career. But if all you know is grammar and spelling, you can't write the great novel — that's where strategic finance comes in."

Strategic finance is what helps business leaders make fundamental decisions — for example, whether to invest in a particular business, or when to enter the market — and therefore incorporates other skill sets, including marketing and strategy.

"To really do finance right, you need to bring in the other disciplines," Petersen says. "This becomes clear the moment you start to rise in an organization. The beauty of Kellogg is that we teach this way from the very beginning."

Recent curriculum changes are designed to match this core vision. For example, both Finance I and Finance II will place greater emphasis on corporate valuation. "How to value a firm is both a financial and a strategic question," says **David Matsa**, an associate professor of finance. "And how a firm is financed can tell you a lot about the business.

"We want students to develop an intuition for good financial decision making," Matsa adds. "This means understanding the economic forces that impact firms and being able to identify the best sources of value." Technology makes it easier to move the computational elements of finance out of the classroom, and to focus on "those ambiguous questions every business has to deal with."

Meanwhile, new courses explore a wide range of subjects, including M&As, LBOs, and corporate restructuring; entrepreneurial finance; and venture capital. Students will also have the chance to participate in two new experiential labs — one focused on venture capital and one on buyouts. "They'll have a chance to explore every aspect of corporate finance," Matsa says.

At the same time, Kellogg's curriculum is designed to offer students a logical framework they can apply to any current or future industry. "The most important skill is the ability to take an amorphous situation and ask a very precise question," Petersen says. "Then you can gather data, reach a conclusion and make a decision. Once you have that underlying structure, you can apply it anywhere."

Well-rounded team players

Kellogg's curriculum changes were made in consultation with several alumni who work in the finance industry. "What Kellogg does best is teamwork," says **Jerry Kenney '67**, a senior advisor to BlackRock, a leading asset management firm. "There are very few jobs in the greater Wall Street area that don't involve working on a team. In fact, it's one of the cornerstones of long-term success in finance."

"To really do finance right, you need to bring in the other disciplines. The beauty of Kellogg is that we teach this way from the very beginning."

MITCHELL PETERSEN
Glen Vasel Professor of Finance
Director of the Heizer Center for Private Equity and Venture Capital

Kevin Goldstein '92, a director at KPMG, says that the value of Kellogg's approach is that it produces well-rounded, flexible graduates. "A lot of people look back on their finance courses as some of the best," he says. "You learn a lot more than just how to be good with spreadsheets."

Kellogg's finance alumni agree that, given recent industry changes, Kellogg's curricular innovations will better equip students to face the challenges ahead. "We're all impressed with Kellogg's new offerings," Goldstein says. "It's a top-tier program, and we want the world to know about it."

"I believe the department is second to none," says **Brian Lessig '99**, managing director at Grace Bay Ventures. "Students gain a solid foundation for understanding how everything connects in finance at the macro and micro levels, from Federal Reserve policy to global capital flows to financial decision-making. Having that broad perspective is going to help students advance their careers in finance." K

CATALYZING THE NETWORK

CREATED BY ALUMNI, THE KELLOGG FINANCE NETWORK IS ENSURING THAT KELLOGG IS KNOWN FOR ITS FINANCE EDUCATION

A few years ago, **Stephan Hartman ’99** began to notice a peculiar fact: Kellogg grads working in finance often weren’t aware that their colleagues on Wall Street were fellow alumni.

“So many Kellogg grads have had extremely successful careers in finance,” Hartman says, “and yet it’s not something people hear much about.”

Hartman, who is currently head of business development at Houlihan Lokey, decided to bridge the gap by creating the Kellogg Finance Network (KFN), a community of alumni in New York City that is fostering connections and enhancing Kellogg’s brand in the global finance industry. The network offers a platform for alumni to build relationships, host educational events and provide industry feedback to the school and its faculty.

Together with five fellow alumni, Hartman established a managing board to organize the network’s structure and start building the network. He reached out to **Jerry Kenney ’67**, a senior advisor at BlackRock, a leading asset management firm, to help recruit a group of alumni with 25 years of experience to sit on KFN’s advisory board.

“The pleasant surprise was that everybody said yes,” Kenney says of the more than 25 alumni the board reached out to. Many of them agreed to join “before we even finished the pitch,” Kenney says. “And, everyone contributed the $5,000 fee or more. It was clear that everyone cares about the Kellogg brand, and wants the finance department to get the credit it deserves.”

The network has organized a number of large-scale events each year, along with a series of monthly lunches where a Kellogg professor or board member will speak on a given financial topic. Kenney spoke about the impact of the regulatory squeeze on capital markets. **Scott Shay ’80**, Chairman of the Board at Signature Bank, led a discussion on Bitcoin and the future of exchange technology. **Jeff Ubben ’87**, founder and CEO of ValueAct Capital, an activist fund in San Francisco, spoke about recent industry trends.

“One of the things we’re trying to do is tap into the diverse expertise of our community for the benefit of the entire alumni network,” says **Brian Lessig ’99**, managing director at Grace Bay Ventures. “There’s certainly no shortage of it.”

KFN also hosts receptions for Kellogg-affiliated organizations — for example, the Private Equity Group — and has even helped with recruiting. Several alumni recently met for dinner with a group of accepted students to talk about their Kellogg experience.

“Five of the seven students chose Kellogg,” says **Kevin Goldstein ’92**, a director at KPMG, “which is a pretty high batting average, and a good example of the kind of impact a group like this can have.” K

Kellogg Finance Network Managing Board

(Pictured above from top left) KEVIN GOLDSTEIN ’92, KRIS ZDYB ’98, BRIAN LESSIG ’99, LEX LEEMING ’02, STEPHAN HARTMAN ’99, HAGAI BARLEV ’01

Advisory Board

JERRY KENNEY ’67, G. CHRIS ANDERSEN ’62, ROBERT L. BERNER ’86, DAVID C. BLOWERS ’89, WILLIAM BOHNSACK ’91, ANTHONY C. BOWE ’83, CURT F. BROCKELMAN, JR. ’96, RICHARD BYRNE ’85, ROBERT DAVIS ’89, T. BONDURANT FRENCH ’76, MICHAEL GROSS ’87, MICHAEL HADDAD ’87, ERIC HANSON ’79, MARTEN HOEKSTRA ’94, DAVID KABILLER ’87, EDWARD KELLER ’86, HARRY KRAEMER, JR. ’79, STEVEN M. LEFKOWITZ ’87, PETER MCKOWN ’85, HENRY ROBIN ’88, DOUGLAS W. ROTATORI ’87, SCOTT A. SHAY ’80, DAVID SHERWOOD ’87, SCOTT SLEYSTER ’87, ADAM SOKOLOFF ’88, BRUCE SPOHLER ’86, NATHAN TROUTMAN ’86, STEPHEN N. WERTHEIMER ’85, ANNE CLARKE WOLFF ’89,

Executive Committee

TOMMASO BRESCHI ’07, MARK FISCHER ’05, DARREN SCHLUTER ’07

*Send an email to **info@kelloggfn.org** to learn more about the KFN and get involved.*

"I've been going straight up a learning curve for the past 20 years, and the good news is, it hasn't stopped."

The long-term visionary

LOOKING TOWARD THE FUTURE HELPED ANN DRAKE TURN A WAREHOUSING AND DISTRIBUTION FIRM INTO SUPPLY-CHAIN POWERHOUSE DSC LOGISTICS

Ann Drake '84 never thought she would lead a national company or become the female icon of supply chain management.

"Women didn't do business or have serious careers when I grew up," said Drake, chairman and chief executive officer of DSC Logistics Inc. in Des Plaines, Illinois. "And, this particular field has been very male dominated."

Everything changed in 1984 when her father, Jim McIlrath, asked her to join the board of directors for the public warehousing firm he founded in 1960. Armed with a newly minted master's in business administration from the Kellogg School of Management, she accepted the opportunity and became a director at Dry Storage Corp.

Drake was an observer and advisor for five years before making an emboldened move: She crafted an ambitious reorganization plan that would consolidate the firm into one entity from 22 and allow it to become a leader in the burgeoning field of logistics and supply chain management.

"I wanted the company to succeed in the 21st century, and it was clear to me we weren't able to do that," she said. "We were a public warehouse company basically storing things for companies. The company was going to need a lot of change."

Her massive overhaul plan came with an added bonus: the newly created job of executive vice president of strategy and culture.

Drake's father embraced the 12-point plan, as did the board members, but employees and customers were tougher to convince.

BY LORENE YUE   PHOTO BY JEFF SCIORTINO

"I remember being afraid to use the word 'change' in the first years because it would send people to passing out," she said.

Her instincts, however, were spot on. Several years later, Drake found herself seated next to Pillsbury Co.'s supply chain executive at a dinner hosted by the food manufacturer. The executive wanted to grow Pillsbury's business and looked to DSC Logistics for assistance. "That had never happened before," she said. "I think he was very impressed with our team."

Today, DSC Logistics does more than just store items for its Fortune 500 clients; it provides leadership for their network analysis and design, logistics center and transportation management, supply chain visibility, business process integration, value-added services, and lead logistics partner capabilities.

Drake's crowning achievement came in 2012 when she became the first woman in 47 years to receive the Distinguished Service Award (DSA) from the Council of Supply Chain Management professionals.

Through AWESOME (Achieving Women's Excellence in Supply Chain Operations, Management, and Education), a national organization she founded in 2013, Drake champions women working in supply chain management, and hopes to see more women not only succeed in the field but also become distinguished leaders.

In the meantime, she's grooming the next generation for leadership positions within DSC Logistics. One of her stepdaughters is on the board of directors while another stepdaughter works for the firm. And Drake continues to find ways to help the company evolve.

"I've been going straight up a learning curve for the past 20 years, and the good news is, it hasn't stopped," she said. K

WHERE ARE THEY *NOW?*

CONCEIVED AT KELLOGG, THESE FOUR STARTUPS CONTINUE TO THRIVE AFTER THEIR FOUNDERS' GRADUATION

BY ANDREW ZALESKI

It's in the DNA of Kellogg students to start building businesses long before their graduation date. Kellogg recently caught up with four startups founded by alumni and checked in on their progress.

Innoblative

YEAR FOUNDED: **2013**

Innoblative is developing a series of medical devices that use radio-frequency waves to treat surgical sites like the ones left after resecting tumors.

KELLOGG ALUMNI:
Tyler Wanke '15 (CEO), Dan McCarthy '13, Jason Sandler '15, Victor Simoes '15, Kate Yeskey '15

LAST UPDATE: As of June 2014, the medical device startup had won or placed in 11 business plan competitions, along with a bounty of $200,000.

WHERE ARE THEY NOW? Innoblative has since closed a $1.2 million seed round, grown to five full-time and three part-time employees, and added a new office just outside Boston near its developer/manufacturer of the device. Going from a prototype to a final version is the plan now, and Innoblative is currently raising $2-3 million to help pay for Food and Drug Administration clearances and an upcoming clinical trial.

NuMat Technologies

YEAR FOUNDED: **2012**

The nanotech startup develops materials to store gases at very low pressure, which might have a future application in natural gas and hydrogen-powered vehicles.

KELLOGG ALUMNI:
Ben Hernandez '13 (CEO)

LAST UPDATE: Two years ago NuMat was just getting spun out thanks to a tech transfer deal with Northwestern University.

WHERE ARE THEY NOW? Instead of tackling the hydrogen market head-on, NuMat plans to integrate its technology into products in the semiconductor, healthcare and defense industries, like a material for the Department of Defense that can act as a filter in next-generation gas masks. The startup has raised $5 million from investors, and plans to grow from 15 to 20 full-time employees in 2016.

SiNode Systems

YEAR FOUNDED: **2013**

SiNode develops silicon anodes that enable fast charging and high capacity batteries for consumer electronic and automotive applications.

KELLOGG ALUMNI:
Samir Mayekar (CEO), Nishit Mehta, Guy Peterson, all ’13

LAST UPDATE: In June 2014, the U.S. Department of Energy awarded the startup a $1 million grant.

WHERE ARE THEY NOW? SiNode Systems has doubled its lab space, grown its full-time staff to six, and completely reinvented its battery material to be more scalable. The startup has also been working on automotive projects for government electric vehicle initiatives.

Page Vault

YEAR FOUNDED: **2013**

Page Vault is a secure, cloud-based service for lawyers who need to admit web content as evidence in court.

KELLOGG ALUMNI:
Jeff Eschbach ’14 (CEO)

LAST UPDATE: Early last year, Eschbach’s legal software startup secured $1.3 million in funding.

WHERE ARE THEY NOW? Page Vault is planning another funding round for the spring as it approaches 100 clients, and recently began targeting the financial and healthcare compliance markets in addition to the legal market. Page Vault also recently released Site Vault, which creates secure copies of entire websites instead of individual pieces of content.

STUDENT STARTUPS EMERGE AS THEY MOVE FROM BUSINESS PLAN TO LAUNCH

Here are a few up-and-coming businesses helmed by current Kellogg students:

OPTICENT HEALTH is commercializing a medical device that will allow for the early diagnosis and monitoring of eye diseases — like glaucoma and macular degeneration — that cause blindness. Co-founder **Kieren Patel ’16** says the startup is testing a pilot version of its device at Northwestern Memorial Hospital. Opticent also recently received a $225,000 grant from the National Eye Institute to finish building another device to be installed at NYU Langone Medical Center in New York.

WANDERFUL, an online, worldwide network for women helping women who travel, boasts more than 10,000 women representing 110 countries. Founder **Beth Santos ’16** wants to take her network one step further. She’s currently creating an ambassador program, where women from other countries will not only be available to dispense advice online, but will also meet up with Wanderful women travelers, show them around and host travelers in their homes.

THE GRAIDE NETWORK is an online platform bringing together current middle and high school teachers with aspiring teachers. It allows soon-to-be teachers to learn in a virtual way, while assisting current teachers with grading and evaluating student work. Founder **Blair Pircon ’16** has just launched The Graide Network’s second major pilot, which runs through April and will serve more than 3,000 students.

BY ADAM MORGAN PHOTO BY JEFF SCIORTINO

SERVING THE PUBLIC GOOD

KELLOGG'S NEW DIRECTOR OF SOCIAL IMPACT RETURNS TO GROW THE PROGRAMMING THAT HELPED HER SUCCEED

> "Megan is a dynamic and energetic leader who is deeply committed. She will bring student and faculty endeavors together to make them even more effective."
>
> **JAN EBERLY**
> James R. and Helen D. Russell Professor of Finance; Faculty Director, Kellogg Public-Private Interface

When **Megan Kashner '03** woke up one Sunday morning back in 2011, she had an idea that would change not only her life, but also hundreds of lives across the country. "I realized there was a gap," Kashner said, "and an opportunity to fill that gap with an innovation that could help a lot of people."

The idea was simple: Help low-income families and individuals meet crucial one-time needs through crowdfunding donations, Kickstarter-style. The result was Benevolent, a web-based nonprofit where donors can choose from hundreds of people who need help paying for car repairs, bus passes and other essentials.

But without the network of colleagues Kashner made at Kellogg — where she completed her MBA in Marketing, Strategy, and Public & Nonprofit Administration — Benevolent never would have become the success story it is today, helping over 675 individuals across 20 states, partnering with 185 organizations, and garnering attention from the White House, MSNBC, *The New Yorker* and *The Huffington Post*.

"Many of Benevolent's greatest allies have been Kellogg faculty and alumni," Kashner said. "Our very first market research was done, pro bono, by a Kellogg alumnus I'd never even met."

Now, Kashner is returning to Kellogg as a clinical assistant professor and director of social impact, a role she's perfectly suited for thanks to her time at Benevolent, the Taproot Foundation and her years as a social worker in Chicago. "I'm excited to bring the networks I've amassed during my career and make them available to students," Kashner said.

In addition to teaching and capitalizing on her network, Kashner's primary role will be to increase Kellogg's reputation as a social impact leader by facilitating and promoting new faculty research and student activities. She'll also oversee the school's social impact programs, including the Youn Impact Scholars, Social Impact Days, and the annual Morgan Stanley Sustainable Investing Challenge.

Bringing Kashner back to Kellogg is just the latest step in the school's mission to increase its social impact footprint. "Megan is a dynamic and energetic leader who is deeply committed," said Jan Eberly, faculty director of Kellogg's Public-Private Interface (KPPI), which overseas social impact. "She will bring student and faculty endeavors together to make them even more effective."

For Kashner, returning to Kellogg is both a homecoming and a new challenge, but more than anything, it's an opportunity to help grow social impact at Kellogg. "It's phenomenal to be back," she said. "I love walking the halls and seeing incredibly energetic students, as well as faculty and staff who helped me when I was a student myself. I can't wait to hear what they're interested in and help them make an impact." K

YEARS TO BUILD, SECONDS TO BREAK

TRUST IS AN INTEGRAL, COMPLEX PART OF BUILDING AND MAINTAINING ANY BUSINESS, SAYS **KENT GRAYSON**

BY THEO ANDERSON   ILLUSTRATION BY MICHAL BEDNARSKI

Trust is the foundation of productive relationships: There is no basis for doing business when it erodes. But what is the foundation for trust?

The Trust Project, which launched in February, explores this question by drawing on the research and insights of scholars and the experience of business leaders. The first phase consists of more than 30 brief videos featuring faculty experts from a range of academic disciplines at Kellogg and NU — including marketing, psychology, sociology and philosophy — as well as industry leaders.

Kent Grayson, an associate professor of marketing at Kellogg and the faculty coordinator for the project, says one goal of the initiative is to encourage academics to think differently about how they study trust. Another goal is to provide a place "where business leaders can come to investigate, in a more practical way than you might find in an academic article, how trust relates to their everyday decisions — about employees, about brand management, and about managing investors and other stakeholders."

Grayson notes that trust has long been an interest of scholars — in the last decade alone, there have been more than 15,000 social science papers focused on trust. Despite that output, there's never been a central repository designed to marshal and disseminate the insights of that research.

FACULTY EXPERT

KENT GRAYSON

AREAS OF EXPERTISE:
Brand management, consumer behavior and trust and deception

- Current research considers the benefits and drawbacks of trusting a business partner, how consumers decide whether something is authentic or fake and what happens when a "true" friend tries to sell you something.
- Awarded the Chairs' Core Teaching Award in marketing at Kellogg in 2004, 2006, 2008, 2010, 2012 and 2014.

Trust is not monolithic

One key theme of the contributors is that trust is a fluid concept, and that it functions differently depending on context.

"Trust is not this monolithic thing," Grayson says. "It's not just that I trust you and that settles it. Trust, it turns out, is actually experienced by people in multiple dimensions."

> "Trust is not this monolithic thing. It's not just that I trust you and that settles it."
> **KENT GRAYSON**
> Associate Professor of Marketing

Researchers posit that there are three dimensions of trust, Grayson says, which are competence, benevolence and integrity. One dimension will sometimes conflict with another — for example, some managers generate trust based on their competence rather than their benevolence. They might even fear that benevolence will make them appear weak. "But that approach can sometimes undermine trust more than help it," Grayson says.

Another theme running through the research is the importance of reciprocity in building trust. It seems intuitive that trusting other people makes us feel vulnerable, which is "the double-edged sword of trust," Grayson says. But one well-established finding in the research is that trust is often repaid with trust. "Sometimes, when you trust someone, it imposes an obligation on the other person to trust you back."

Trust does not mean 'moral'

Knowing the mechanics of trust can help managers be more effective, Grayson says. For example, trust is often viewed as an act of altruism. "People often believe that if a person is someone who engenders trust in others, they are moral. But there is a slightly different line of thinking that emphasizes the self-interested motivation of trust."

"It is good for business," Grayson adds. "It actually makes self-interested sense in the marketplace if you build trusting relationships. It's not just because you're a good person."

Making such insights accessible to a wide audience will be the project's ongoing mission, and Grayson believes it will become a valuable resource for managers and academics alike. "Intuition can sometimes take you a long way," he says, "but what we've learned across the academic research on trust is that, sometimes, intuition's not enough." K

UPGRADING THE BRAIN

NEW RESEARCH FROM **MORAN CERF** SEEKS TO IMPROVE OUR LONG-TERM THINKING BY COMBINING MONEY WITH CLIMATE CHANGE

In the famous "Stanford marshmallow experiment" of the 1970s, researchers watched children choose between immediately gobbling a single treat or waiting to receive more candy. Now, Moran Cerf of Kellogg and Malcolm MacIver of the McCormick School of Engineering are building on that work in a highly sophisticated, 21st-century fashion to better understand how people make decisions about the future.

Cerf, an assistant professor of marketing at Kellogg and a professor of neuroscience, and MacIver, a professor of mechanical engineering, are conducting an experiment exploring ways to improve "temporal discounting," the tendency to attach a greater value to immediate rewards over those in the future. Specifically, the project will focus on one of society's largest temporal discounting problems: climate change.

A preselected group of 1,000 people are each given a certain amount of money to invest in an online prediction market about climate change. As the experiment progresses, the participants will be questioned to gauge their ability to think into the future and deliberate climate change topics.

Most people aren't good at assessing what's ahead, Cerf said. But if reward is involved, they tend to be more invested — figuratively as well as literally — and become better informed. Ultimately, the experiment doesn't just look at how behavior changes, but also at how well the brain adapts, or doesn't, over time.

"We try to use the domain of money to help people learn about climate change, while changing their neural responses to far-in-time events. This will potentially change their views on climate change," Cerf said, as the participants become more informed — merely by having to make smarter financial bets.

Given current discussions about the Earth's warming atmosphere and its potentially alarming environmental effects, the project would draw attention no matter who was conducting it. But Cerf's stature adds buzz.

Cerf is a former Israeli soldier turned computer hacker who, before Kellogg, earned a living breaking into banks online

BY CHUCK MCCUTCHEON
ILLUSTRATION BY CHRISTIAN DELLAVEDOVA

to expose their security vulnerabilities. He's extensively quoted in the media about his brain research, teaches a screenwriting class on science in film, consults on Hollywood projects like "House" and "Limitless," and recently spoke at the TED2016 Conference in Vancouver about how people process dreams.

The project is a collaboration between Kellogg, McCormick and the Northwestern Institute on Complex Systems (NICO), which brings together faculty to solve practical problems through complexity science, an emerging field that explores the relationships between parts of a system and how those systems interact with the environment.

A NICO working group on neuroscience helped Cerf get to know MacIver. "We learned we were interested in a lot of the same things," Cerf said, adding that one of their chief fascinations was the question that drives their experiment: "Why are humans so bad at things like the future?"

"NICO workgroups were set up to find joint solutions that overcome disciplinary blind spots," says **Brian Uzzi**, NICO co-director and faculty director of the Kellogg Architectures of Collaboration Initiative (KACI). K

FACULTY EXPERT

MORAN CERF

AREAS OF EXPERTISE:
Neuroeconomics, neuromarketing, behavioral economics and consumer decision-making

- Current research uses methods from neuroscience to understand consumer psychology, such as the neural mechanisms that underlie decision-making and offering a new perspective on predicting future choices.
- Work has been published in academic journals as well as popular media outlets such as CNN, *Wired* and NPR.

Computational social science goes global at IC2S2 conference

The upcoming International Conference on Computational Social Science (IC2S2) at Kellogg will bring together public, private and academic experts from around the globe to advance the rapidly evolving, multi-disciplinary field of computational social science, which hopes to better predict human behavior using big data.

The conference, June 23-26, will offer participants a chance to enhance their skills and build networks among researchers from different fields. Speakers attending the conference include Dirk Brockmann, professor of biology at Humboldt University in Berlin, who used airline data to predict the spread of Ebola; Jon Kleinberg, a computer scientist from Cornell University credited with developing key aspects of the Internet; and **David Lazer**, a political scientist from Northeastern University and Harvard University who has pioneered the study of social media and political behavior.

The conference will also focus on the business world's role in partnering with academia to advance computational social science. Scientists from several companies will present their work in the field, including Duncan Watts, a principal researcher at Microsoft Research, and David Ferrucci, head creator of IBM's Watson computing system and a partner at Bridgewater Associates.

"Our aim is to create the new field of computational social science with an eye toward making it a powerful vehicle for generating tomorrow's breakthroughs," said **Brian Uzzi**, faculty director of the Kellogg Architectures of Collaboration Initiative (KACI) and co-director of the Northwestern Institute on Complex Systems (NICO).

WHY THE U.S. NEEDS TO INVEST MORE IN INFRASTRUCTURE

WE SHOULDN'T UNDERESTIMATE THE IMPORTANCE OF INFRASTRUCTURE FOR THE NATIONAL ECONOMY, SAYS DAVID BESANKO '82

Convincing the public to invest in infrastructure has never been an easy feat. Nobody likes paying fees or tolls, and the costs of crumbling roads and bridges are largely invisible to daily commuters. And so, after decades of neglect, the country faces what some estimate is a trillion-dollar funding gap.

"For the average citizen, infrastructure is an extremely boring issue," says David Besanko, the IBM Professor of Regulation & Competitive Practices at the Kellogg School. "But it is essential to our economy, and there's no doubt we need more investment."

A number of lawmakers agree. In December, Congress committed to spend more than $300 billion on transportation projects over the next five years.

Yet many citizens are still skeptical of federally funded projects — a skepticism that dates back to the early nineteenth century, when President James Monroe sought to establish a system of 'internal improvements.' Today, one problem is public perception: few can name the thousands of federal projects that have turned out well, but everyone remembers the Bridge to Nowhere, the proposed Alaskan bridge linking a small town to a nearby airport that initially secured hundreds of millions in government funding back in 2005.

"The backlash against national funding of projects has been disproportionate," Besanko says. "Yes, there were abuses, but those abuses constituted a small percentage of overall spending. Big projects still require large amounts of money."

Consider the U.S. Interstate Highway System, which Besanko calls "one of the most impressive public works projects ever undertaken." The funding bill barely made it through Congress back in 1956, but having a federal highway system transformed the nation's economy. "There are long-term consequences to momentary investment decisions."

So where will this investment come from? Given the restraints on public funding, the private sector may have a role to play in supporting infrastructure projects. Public-private partnerships offer greater access to up-front capital and often lead to faster construction and better long-term maintenance.

"The private sector can certainly drive innovation," Besanko says. Consider the rise of smart city technologies, which would enable traffic signals to be updated in real time, or automatic train controls to make Amtrak trains more secure, or air traffic control systems to greatly reduce airport delays. "But if we want to have advanced infrastructure and secure the future of our economy, ultimately the public is going to have to make a greater investment." K

FACULTY EXPERT

DAVID BESANKO

AREAS OF EXPERTISE:
Competitive analysis, industrial organization, microeconomics, public policy and regulation strategy

- Recent research on competitive strategy investigates what drives pricing in a learning-by-doing business environment by isolating predatory incentives and analytically decomposing the equilibrium pricing condition.
- Awarded the Aspen Institute's 2015 Faculty Pioneer Award for developing coursework studying the relationships between capital markets, firms and the public good.

BY DREW CALVERT

EMERGING MARKET INVESTING: INDIA

It's home to the world's second largest population — more than 1.2 billion people — and now, one of the globe's biggest economies. But for years, India's rise as a powerhouse economy has been overshadowed by its even larger neighbor, China.

As China's economy sputters, the Indian economy continues to grow. Last year, India's economy grew by more than 7 percent, mostly powered by increasing output from its manufacturing sector. By most accounts, that trajectory is expected to continue in the years to come.

India is also outperforming other emerging markets. According to *Forbes*, India "was the best-performing emerging market in 2014, delivering over 29 percent," making it increasingly attractive to investors both in and outside the country.

India's rise and steady growth has led to an outpour of opportunities. And as its economy continues to evolve, India's business culture transforms and adapts to a new status quo.

Some Kellogg graduates are leading the way.

BY BOBBY CAINA CALVAN

DRESSING FOR SUCCESS

WITH KAARYAH, NIDHI AGARWAL '08 PROVIDES BUSINESS ATTIRE TO INDIA'S GROWING FEMALE WORKFORCE

As Nidhi Agarwal '08 tells it, her foray into fashion began when she spilled coffee on her blouse. When she went to a nearby mall for a replacement, she couldn't find a shirt with the right fit.

"That's when I realized there was a large unmet need in the Indian market for Western non-casual wear for the Indian silhouette," she recalled. "And I wondered whether I was the only Indian who felt like this."

Agarwal started her career as an accountant, but had early aspirations of running her own business. Now she hopes to grow her company, KAARYAH Lifestyle Solutions, into India's premier outlet for Western-style women's apparel.

Though traditional wear, such as the sari, still dominates the women's apparel market, Western tastes have begun to take hold, Agarwal said, particularly among India's younger generations.

Agarwal said she wants to replicate the success of U.S. apparel companies like Ann Taylor and The Limited, brands that became well-known to her while attending Kellogg.

But she's faced challenges since launching the company nearly two years ago. After pitching to dozens of investors, Agarwal secured pre-Series A funding from Indian businessman Ratan Tata, chairman emeritus of the $100-billion Tata Group.

The funding proves there's a need for this kind of business, Agarwal said, as more Indian women try to find inroads into their country's overwhelmingly male-dominated economy. According to researchers for the International Monetary Fund, only 125 million of the roughly 380 million working-age Indian women are employed or looking for work.

Agarwal is betting more firms will hire women to power India's expanding economy. And more women entering the workforce will widen the demand for the Western-style work clothes her company markets.

For now, KAARYAH's fashions can only be bought online. But Agarwal hopes to open more channels as she grows her brand across the digital marketplace. K

300+ KELLOGG ALUMNI IN INDIA

“Social imperatives are all around us in India. I’ve grown up with it.”

JASJIT MANGAT ’97
Investment Director,
Omidyar Network

LIGHTING THE WAY FOR SOCIAL IMPACT

JASJIT MANGAT ’97 BRINGS IMPACT INVESTING TO INDIA WITH THE OMIDYAR NETWORK

Jasjit Mangat ’97 knew something big was happening in his native country.

“When I moved back to India in 2003, it was because the opportunities were so great,” Mangat said. “India is certainly going through transformative times.”

His opportunities back home began while he was working as an investment consultant for the Carlyle Group, a private equity firm with $188 billion in assets invested across the globe.

He focused on the energy and healthcare sectors, two areas of India’s economy that have helped the country develop into a major world economy.

But as India grew, Mangat also saw the challenges his country faced, including the poverty that prevented huge swaths of India’s population from taking part in India’s boom.

Fast forward to 2009. Omidyar Network, the philanthropic venture capital firm established by eBay Founder Pierre Omidyar, wanted to expand its footprint into India. Mangat and Jayant Sinha, now the country’s finance minister, were tapped to lead the effort.

It was an opportunity for Mangat, an investment director with the network, to help develop a new generation of entrepreneurs and also support socially progressive ventures.

“The areas that are closest to my heart are the ones that built on my engineering roots and also had some social need in the areas of clean, low-cost energy and affordable health care,” he said.

One of the ventures he poured money into is d.light, a social enterprise that aims to help some of the world’s poorest people — many living without electricity — gain access to off-the-grid energy. Among the products the company markets are solar-powered lanterns.

The company has sold nearly 10 million lanterns, he said, providing inexpensive, clean light sources to impoverished communities, not just in India, but across still-developing areas of the world. Last year, d.light solar lanterns generated over 100 gigawatt hours — enough electricity to power 10,000 homes night and day.

“Social imperatives are all around us in India,” he said. “I’ve grown up with it. If there’s any little thing we can do to address them, that’s a great use of the skills I acquired at Kellogg.”

CAPITAL GAINS

RAHUL KHANNA '00 RETURNED TO INDIA TO HELP BUILD OUT THE COUNTRY'S VENTURE CAPITAL INDUSTRY

After bouncing across Silicon Valley from startup to startup, Rahul Khanna '00 looked across the ocean to find his calling.

"Things were starting to look interesting in India," he said. Soon, he convinced his wife it was time to return home.

Khanna had ambitions of launching his own business, one that would leverage his experience in telecom and the Internet.

But this was a decade ago, and venture capitalists were still a rare breed in India. India's culture of enterprise was far different from what he'd left behind at Kellogg and in the San Francisco Bay Area. The investors who offered financial help expected majority ownership — an option that made no sense to Khanna.

"There must be many other guys like me who have a desire to build a business and put the next 10 years of their lives behind it, but would accept only owning 10 percent of the company," he said. "Well, I didn't think that's how things should work."

There were few options for entrepreneurs in India without financial backing. Venture capitalists would soon begin to fill that void, and Khanna, recruited by a fellow Kellogg alumnus to join Clearstone Venture Advisors, would help other entrepreneurs get their start.

In 2011, Khanna moved to a larger fund and became a managing director for Canaan Partners in India, a blue-chip venture capital firm with $4.2 billion of funds under management.

But as he helped develop India's venture capital culture, he saw what he called a gap in the financing market and an opportunity to strike out on his own to capitalize on the absence of a

$44.9B

THE AMOUNT INDIA RECEIVED IN

FOREIGN DIRECT INVESTMENT IN FY2015

financing strategy called venture debt.

In the autumn of 2014, he founded Trifecta Capital, which he said is India's first venture debt fund and one of the few in Asia.

"Think of it as a specialized bank for new economy businesses," he said. "Most startups are unable to access credit from a bank because banks have traditionally required considerable collateral or a track record of profitability. That's where we step in and provide structured debt that supplements the equity capital raised from VC funds."

The arrival of venture debt firms in India is further evidence, Khanna said, of India's evolving business climate and a maturing of the venture capital ecosystem. K

Kellogg and the Indian School of Business partner to provide executives with a global education

Thanks to a partnership between Kellogg and the Indian School of Business, executives in India have a pipeline for growth and learning.

The ISB-Kellogg Global Advanced Management Programme is an open-enrollment, non-degree executive education course designed to enhance participants' understanding of the global economy.

Participants spend a week in the fall learning from the faculty at the Indian School of Business, one of India's leading advanced business management schools, before traveling to the Allen Center in Evanston to tap into the knowledge and expertise of some of Kellogg's top-tier faculty.

"These are very senior participants who are very dedicated to understanding the global economy and drawing on the insights of the faculty from each school," said Robert Hughes, Kellogg's academic director for the program.

Last fall, the participants spent a week at ISB learning about strategy, finance, macroeconomics and global leadership. During their week at Kellogg, they received training in marketing, innovation, collaboration, risk management and global economics.

"As the program has grown, we've really been able to develop that synergy between the two schools, so it really adds great perspectives to their education," Hughes said.

Perhaps someday, said Hughes, executive participants might travel to India and benefit from instruction at ISB and have the opportunity to visit Indian companies.

"If you look at the different economies in the world — Brazil, Russia, India and China — it's really going to be important to get a better understanding of the growth of the Indian economy," he said. K

"[Product innovation] did two things: it helped build our reputation as the burger authority, and it dramatically improved our profitability."

The gourmand

STEVE CARLEY IS OUT TO REBRAND BURGER CHAIN RED ROBIN AS AN UPSCALE DINING EXPERIENCE

Red Robin is changing its tune.

The 45-year-old casual dining chain, best known for its diverse hamburger lineup, is pushing the boundaries of gastronomy under CEO **Steve Carley '75**.

Before Carley assumed the helm of the Colorado-based Red Robin International in 2010, previous leadership had shifted the eatery into a kid-focused establishment, complete with "refreshment centers" and cook-offs that pitted young chefs against one another. The move backfired, and shareholders ousted Carley's predecessor.

"We lost a lot of adult traffic — adults without kids and singles," Carley says, noting that average restaurant receipts plunged by more than 10 percent. "That's a big deal in a business with low margins."

But resurgence is afoot. Carley's innovations include the puckishly named Wedgie burger — a bacon and avocado burger wrapped in a "wedgie" of lettuce — that's an homage to a wedge salad; Boozy Shakes (including Jim Beam Maple Bourbon swirled into vanilla soft serve, crowned with bacon bits and a strip of candied bacon); and beer can cocktails (a beer-infused margarita, for example, served, as advertised, in a can.)

Rather than drop prices, Carley stressed product innovation. So far, the plan appears to be resonating with diners. "That did two things: It helped build our reputation as the burger authority, and it dramatically improved our profitability, almost overnight," he says.

While post-recession customer traffic across the casual dining/full-service restaurant spectrum is down 2 percent annually over the past seven-plus years, Carley isn't deterred. He says Red Robin is in the fifth year of a decade-long plan to usher in innovation and lure customers back to the company's more than 500 locations, all of which will have undergone a redesign by the end of the year.

Carley joined Red Robin International after serving as CEO of El Pollo Loco from 2001-10, and as chief operating officer of Universal Studios Hollywood from 1996-99.

These days, burgers rule the roost. He's relying on word of mouth to get diners to flock back to his restaurant, whose past incarnation he describes as "loud and chaotic," a place where "there was a feeling of sensory overload."

Nowadays, Carley's Red Robin is partitioned into three distinct areas: the bar, a family section and what's called The Gathering Area, for all diners in between.

"In the past, because we seated people at random, somebody on date night could very easily end up sitting next to someone else's 2-year-old," he says. "That was a big negative."

In the family section of the new configuration, Carley adds, "no one is looking out of the corner of their eyes wondering why your kid is standing on the table with two salt shakers because all the kids are having fun. You won't get judged. That's a key secret." K

BY ANDREW FAUGHT   PHOTO BY JONATHAN CASTNER

BY RACHEL P. FARRELL

YOU BOUGHT A COMPANY. *Now what?*

FOUR INVESTORS SHARE WHAT IT TAKES TO TURN A COMPANY INTO A MARKET LEADER

If you're looking for a playbook for creating value through acquisitions, you can stop now: It doesn't exist.

"There is no formula, equation or model that works perfectly," says Mitchell Petersen, the Glen Vasel Professor of Finance at Kellogg and director of the Heizer Center for Private Equity and Venture Capital. "There's always something that hits you out of left field."

The ambiguity and uncertainty that's inherent to this process is a challenge in and of itself. But for investors who buy companies, the larger challenge is knowing when, where and how to make changes to a company that will generate the most value. These are not just financial decisions, but choices that impact everything from operations and strategy to marketing and human resources.

Four Kellogg alumni — three from private equity firms and one from a holding company — share how they've navigated this nebulous path and turned companies into market leaders. While their style as investors varies, each possesses a trait that Kellogg develops in its students: grit.

"If you get into this business and you cave at the first thing that goes wrong, you'll never make it," explains Petersen. "It's that resistance and persistence that matters."

FACULTY EXPERT

MITCHELL PETERSEN

AREAS OF EXPERTISE:
Banking and financial institutions, small business management, entrepreneurship and risk management

- Recent research looks at how firms — especially small firms — are financed, as well as risk management and the role of debt markets in funding investments.
- Served on the editorial board of *The Journal of Finance, Financial Management,* and the *Journal of Financial Intermediation,* and as a research associate with the National Bureau of Economic Research (NBER).

PATIENCE IS A VIRTUE

As a firm, we are very patient. We don't have limited partners, and we hold our businesses for the long term. So it's not full-throttle from the start as far as changes go. We're very focused on making our companies a success, but we do it in a patient and smart way.

Once we near the close of a purchase, we start formulating a 90-day plan. We share that as soon as we've closed the business. We want to get people's buy-in, because you don't want to be seen as a person who's coming in and changing everything very rapidly.

That's especially important for us because most of the companies we buy are family businesses. The previous owners are often older folks who don't have somebody — like a spouse or an heir — to pass the company on to. They see the company as their baby; they formed it and worked their entire life to make it a success. So they're used to doing things a certain way, and it can be hard for them when we make changes. We are careful about managing that or it can lead to some difficult conversations.

Add-on acquisitions can accelerate growth in very positive ways when done correctly. This is where patience comes into play. What we've found is that we're most successful if we wait before making add-ons. We waited three or four years before we made our first add-on acquisition with one of our businesses, and we were able to really expand our footprint without taking on much debt.

Both of us hold a position on the board of almost every company we own. But we keep one of us as an outside director so we don't both get wrapped up in the daily minutia of the company. Then, if there's ever an issue, one of us can turn to the other and ask for his opinion as an outsider.

It used to come as a shock to us, but now we know: You always find surprises after closing, no matter how much due diligence you do beforehand. It's important to be prepared for the unexpected. A lot of times it can seem like the roof is caving in. Remain calm — you can sort through it.

GRANT GUND '97 (right) and **ZACK GUND '00**

MANAGING PARTNERS, COPPERMINE CAPITAL

Brothers Grant and Zack Gund are the founders of Coppermine Capital, a private equity firm that targets small- to mid-size manufacturing, service and home healthcare companies with EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) exceeding $1 million. Launched in 2002, the firm currently owns 15 companies worth a combined $60 million.

BUILD TRUST FIRST

In the first six months, building trust with employees is critical. Trust is the foundation for the company's next 50 years — and if you don't build it, it's not going to work.

So on day one, we get in front of the broader group of employees so they know who we are, what our plans are and how they're personally going to be affected. Then we ask them for their opinions and engage them in the changes. You have to be very honest with them. Even if you're delivering negative news, you've got to be completely up-front about it.

Our corporate headquarters has 12 people — that's it. We're not that stereotypical bureaucracy; we don't come into businesses and take over. We're here as a resource for companies. Our responsibility is to get the right people in place, allocate capital and manage risk from an enterprise perspective. Then it's up to the individual business units to make the operating decisions, enhance their competitive position and drive continuous improvement in everything they do. We really want entrepreneurial executives and an entrepreneurial-run business, so we push all of that decision-making down to the business level.

With the businesses we work with, the ideas are already there. The problem is usually that they're unfocused. It's up to us to make sure we've got someone in place who's going to focus on the one or two things that are going to delight customers and engage employees the most. If you don't have the right leadership at the top, the business isn't going to reach the levels it's capable of reaching.

We also find that getting the top management team personally invested in the business — literally, with their own money — is a powerful part of what we do. Not only does it ensure they're focused on the same things the ownership is focused on, but more importantly, they feel a connection to the business.

If you talk to any of our companies, they would tell you we're very data-rational.

Cash is the best measurement tool because you can't mess with it. But if you're solving issues for your customers and engaging your employees, the financial success will be there. That's how you really know you're doing good work.

LARRY GIES '92

PRESIDENT & CEO, MADISON INDUSTRIES

Larry Gies founded Madison Industries, one of the largest and most successful privately held companies in the world, after running predecessor Madison Capital Partners for 20 years. Madison builds entrepreneurially driven branded market leaders that are committed to making the world safer, healthier and more productive by creating innovative solutions that deliver outstanding customer value.

MAKE THE TOUGH DECISIONS

It all starts with management. We can run computer programs and scenarios until we're blue in the face, but if you don't have the right management, you're not going to be successful. You need management that can look at things objectively, communicate effectively, lead and inspire. They need to be able to make the tough decisions that may create angst in the near term, but are best for the company in the long term.

One of the most important things to change is culture. We emphasize, without being threatening, that there's a new attitude that everyone needs to embrace. If the company is successful, everybody is going to be successful, but to create success there's got to be an attitude of finding a way to make things happen and to expect accountability.

Some members of management are able to adhere to this new culture, but many times they aren't. It's unfortunate, but if we have someone who's locked into old ways, we have to replace him or her. You have to make changes. That's just part of this business.

Getting employees on board is really important to cut down on the water cooler rumors and the uneasiness that comes from this. We want to make sure employees see that these changes are good for them and their families. We also make sure that we talk to key customers and suppliers very quickly so they know the business is going to continue to do what it had been doing, but better.

Today, there are fewer opportunities for financial engineering and arbitrage. Thus, it's more important to find good growth businesses that can create value. Also, there are fewer protected niches. Thirty years ago, if you owned a TV station in a small market, you didn't have to be the smartest guy in the room to make good money. That's not the case now. There are so many more ways for competition to get into markets.

It's fun to come into the office, look at a new deal and see that we're not going to be able to roll out the same playbook we used in the past. Things are continually different. The world has become a lot more competitive. Companies have to be better to succeed.

ERIC "RICK" NEUMAN '70

MANAGING DIRECTOR AND PARTNER,
HICKS EQUITY PARTNERS

For more than two decades, Rick Neuman has held leading roles at several firms led by Texas businessman Thomas Hicks, who's regarded as the pioneer of the buy-and-build private equity investment strategy. After serving as a partner with Hicks, Muse, Tate & Furst, he joined Hicks Equity Partners in 2005 when Mr. Hicks established that firm.

EVOLVE AHEAD OF THE MARKET

Sterling Partners is not a cookie cutter private equity firm. Of course, like other firms, we invest in businesses with the intent to deliver a great return to our investors. But our approach is deeply rooted in the firm's entrepreneurial history.

The founders of Sterling started a company together when they were in their late teens and early 20s, and then spent the first 15 years of the firm's history replicating that success. We realized early on that capital is fairly pervasive, and instead differentiated ourselves with our appreciation for and ability to partner with founders to realize the potential of their businesses. Today, my colleagues and I continue to approach partnerships with founders and management teams with empathy, experience and expertise around what is required to build a great business.

"Inspired growth" describes Sterling's approach to buying differentiated businesses and growing them in inspired ways. It is an aspiration to which we hold ourselves. It's reflective of the type of partners that we want to be and the type of partnerships that we want to build.

Our operational focus is what has defined us over the years. Notably, we spend considerable time and resources recruiting world-class management and building out diverse and engaged boards of directors. Additionally, although we obviously spend time with management talking about the financial statements, we spend even more time talking about key operating metrics and strategic drivers that ultimately drive those [financial] statements.

Having a value proposition that customers can't live without is important. But it's even more important to have a company and leadership team that has the ability to keep refining that value proposition to address evolving market needs. Market leaders that have stayed ahead have anticipated their customers' needs before the customers even know they have them.

We firmly believe that you need to invest for growth. Some people prefer a more conservative path and to invest as they need it. We prefer to build a world-class management team and improve the infrastructure and processes in anticipation of the growth.

KIM VENDER MOFFAT '06

PRINCIPAL, STERLING PARTNERS

Kim Vender Moffat specializes in the healthcare services and education sectors at Sterling Partners, a Chicago-based private equity firm that invests in small- and middle-market companies. In addition to managing the active portfolio, she works on all aspects of the deal process, including identification and due diligence of prospective acquisitions.

Scaling up ON ENTREPRENEURSHIP

KELLOGG INTRODUCES TWO OFFERINGS TO TRANSFORM STUDENTS INTO ENTREPRENEURS — THROUGH ACQUISITION

Contrary to what today's headlines might suggest, becoming an entrepreneur doesn't always mean launching a startup. In fact, one of the oldest and most well-trodden paths to entrepreneurship is through acquisition, whether by way of a search fund, independent sponsor, family business or entrepreneur-in-residence program.

To increase students' exposure to the full spectrum of these opportunities, the Kellogg School has developed a new course and an accelerator program focused on entrepreneurship through acquisition.

Launched this past winter, the course *Entrepreneurship Through Acquisition* (KIEI 905-5) is designed to give students an overview of the different ways they can engage in this space. It outlines the steps involved in acquiring a company, including searching for opportunities, raising capital and structuring deals. And, crucial to the success of an acquisition, it focuses on the cross-disciplinary aspects of growing a company.

"Entrepreneurship through acquisition is a very multidisciplinary experience," explains instructor **Alex Schneider '99**, adjunct lecturer of Innovation & Entrepreneurship and co-founder of the private equity firm Clover Capital Partners. "It draws on lessons learned from finance, marketing, business law, real estate development, negotiations and, most importantly, management and organizations. This is one of the reasons why Kellogg is really well-suited to be very successful in developing this pathway."

As a complement to the course, Kellogg is developing an "Acquisitions & Ownership" track through the Zell Fellows Program. The track is designed for students seeking an in-depth, accelerated and tailored education in entrepreneurship through acquisition.

As opposed to students in the program's venture track, these students "have an entrepreneurial itch but … their primary area of interest is growth and scale," explains **David Schonthal '09**, clinical assistant professor of Innovation & Entrepreneurship and director of the Zell Fellows Program. "I'd categorize them as 'scalers' as opposed to 'starters.'"

The program will be introduced to prospective students in the spring of their first year through an information session. Students interested in this pathway will be encouraged to obtain a summer internship working for a search fund, small private equity firm or family office engaged in acquisition sourcing and/or company operations. The program involves both a variety of immersive group experiences, such as company visits, guest speakers and simulations as well as resources to further individual pursuits such as developing a private placement memorandum for a search fund or developing an acquisition business plan for a family enterprise. Like students in the venture track, the fellows will receive mentorship and coaching; in addition, they'll have access to resources to fund travel and administrative expenses.

Seven students are currently enrolled in the new track's pilot; however, Schonthal anticipates enrolling up to 10 students in the track when it officially launches in the fall.

For Kellogg, these are the first steps in building out unique offerings in this space, and for good reason. "The entrepreneurship through acquisition outcome is such a phenomenal opportunity — not just for students, but for the investor community," says Schneider. "It's a way to use strategic capital and the passion, hard work and discipline of an entrepreneur to buy and grow great companies."

FACULTY EXPERT

DAVID SCHONTHAL

AREAS OF EXPERTISE:
New venture creation, business model design

- A leader in the Business Design practice at IDEO, an award-winning innovation consultancy, where he has helped develop initiatives such as the *Startup-in-Residence* program and other initiatives around venture design and corporate entrepreneurship.

FACULTY EXPERT

ALEX SCHNEIDER

AREAS OF EXPERTISE:
Acquisition and ownership, small business investing

- Co-founder of Clover Capital Partners, a private equity firm with offices in Evanston and Los Angeles that specializes in acquiring and investing in small businesses.
- Currently sits on the board of four small food businesses including Main Street Gourmet, Jo's Candies, Phillips Syrup and Wilde Brands.

Leveling the playing field

FOR EVERYDAY INVESTORS

BY ANDREA MUSTAIN
ILLUSTRATION BY CHRISTIAN DELLAVEDOVA

STARTING IN MAY, TITLE III OF THE JOBS ACT GIVES EVERYDAY PEOPLE THE CHANCE TO INVEST IN PRIVATE OFFERINGS. AND, POTENTIALLY, THE NEXT BIG STARTUP.

For all the recent talk of Wall Street's disdain for Main Street, the public investing market is actually designed to be a pretty democratic space — a crowded restaurant without a guest list. Anyone with a hankering and some dollars to spare can get in the door and order off the menu.

But there's a far quieter operation just down the block. And if you can get past the velvet rope, a vast smorgasbord awaits.

It's the market for private offerings. And it's essentially an exclusive club, reserved for individuals and institutions — known as accredited investors — that possess certain financial means. This private market is huge and growing. In 2014, according to an SEC report, companies raised more than $1.3 trillion in capital this way. For the accredited investors who get in early, these offerings can lead to mind-boggling wealth.

But in mid-May, the velvet ropes come down. When Title III of the Jumpstart Our Business Startups (JOBS) Act goes into effect, anyone, no matter their income or net worth, will be able to get a piece of the unregistered securities market. Welcome to the bold new world of equity crowdfunding, where non-accredited investors can buy a piece of early-stage companies.

New avenues for investors

"We are very excited about it. It's great for investors," says **Matthew Milner '94**, co-founder and co-CEO of Crowdability, a financial publishing company that focuses on alternative investments. As part of its service, Crowdability curates the most credible offerings from a variety of private securities investing portals (currently open only to accredited investors) like AngelList and CircleUp and also offers data services and investor education. Protecting and educating investors is key, Milner says, because "these are very risky, illiquid companies."

But if you know what you're doing, the risk can pay off. As an illustration, Milner tells a bit of tech-world lore about that most vaunted of startups, Uber. The car-sharing company initially raised capital through AngelList. "If you put in $10,000 in the first round, guess how much it would be worth today?" Milner asks. "Sixty million dollars." That's an extreme example, Milner says, but you get the point.

"IF YOU PUT IN $10,000 IN [UBER'S] FIRST ROUND, GUESS HOW MUCH IT WOULD BE WORTH TODAY? SIXTY MILLION DOLLARS."

Matthew Milner '94
Co-Founder and Co-CEO, Crowdability

economy lay bleeding and broken at the bottom of a tall, stock market-shaped cliff. From the beginning, the SEC was saddled with a difficult mission: protect the little guy, but also foster access to capital.

The agency was trying to do both when it created the market for private securities three decades ago.

The idea was to help small businesses. Registering securities for sale in the public market required a mountain of paperwork and a host of disclosure and oversight, and smaller companies just couldn't keep up. They needed an easier way to raise money.

Yet until Title III, the only people allowed to invest in Uber were accredited investors — individuals who make more than $200,000 a year or have a net worth of more than $1 million.

"The JOBS Act said, 'Why is it that only the rich are allowed to invest in startups?'" says **Gil Penchina '97**, a veteran Silicon Valley investor and head of a top investor group on AngelList.

Accredited vs. Non-accredited

The SEC's answers to that question can be found in the creation story of the agency itself, established in 1934, when the U.S.

Enter Regulation D, a list of exemptions added in 1982 to existing securities law. Under Regulation D, businesses could sell equity without all the painful SEC requirements, but, since these were very risky assets, there were some rules. Among them, rules about advertising — you couldn't — and rules about who could buy these securities.

"As a democracy, you do want to have broad participation in the economy," says **Mitchell Petersen**, the Glen Vasel Professor of Finance at Kellogg, "but you also want to protect individuals from making stupid decisions." The SEC decided the best way to do this was to make sure that only the wealthy could invest in these very risky securities and establish the accredited investor rules.

Yet under Title III, some of those rules go out the window. Which means the buyers market for private equity could get a lot more crowded.

New rules for a new market

Under the new paradigm, people whose income or net worth is less than $100,000 can invest, at most, $2,000 each year in unregistered securities. If your income or net worth is $100,000 or higher, you can spend more — 10 percent of income or net worth, but never more than $100,000 annually.

"The SEC doesn't want somebody to take half their income and invest in some super-risky stock," says **Michael Fishman**, Kellogg's Norman Strunk Professor of Financial Institutions.

"AS A DEMOCRACY, YOU DO WANT TO HAVE BROAD PARTICIPATION IN THE ECONOMY, BUT YOU ALSO WANT TO PROTECT INDIVIDUALS FROM MAKING STUPID DECISIONS."

Mitchell Petersen
Glen Vasel Professor of Finance

In addition, the SEC has capped the amount that startups can raise through equity crowdfunding at $1 million in a 12-month period. (Companies can also seek capital from other sources.)

All transactions must be conducted through registered portals or brokers; in other words, non-accredited investors will likely buy private equities in much the same way that some accredited investors do now — through websites like AngelList that can't make recommendations, but can show a user what other, very successful people are buying and offer buy-in on portfolios assembled by more experienced investors.

Finally, startups must adhere to a laundry list of disclosure requirements if they wish to raise capital this way.

"The rules all have the flavor of protecting investors," Fishman says. Yet some fear the rules are too exacting.

Cut off at the knees?

"There is a fair amount of paperwork burden on the issuer," says **Karin Dommermuth O'Connor '89**, a longtime angel investor and president of Perimeter Advisors in Chicago. "The Twitters of the world don't need that kind of hassle to raise a million dollars. So then you have to ask, what kinds of companies are willing to jump through these extra hoops?"

Also, a million dollars is not a lot for tech companies to work with, says **Nikki Pope '86**, an attorney at Cooley LLP in Palo Alto, California, who has been steeped in the details of Title III for years. "That's going to limit who's interested."

Pope also objects to the limits placed on non-accredited investors. "If you make less than $100,000 a year, the SEC is saying you can't spend more than $2,000 on private equities. I don't understand why we're being babysat for investments, but not babysat for spending $5,000 on a concave TV," she says. The limits also don't leave much room to diversify, and investors may not have the running room to ever hit it big.

Auspicious moves

So is equity crowdfunding doomed from the start? Pope, Dommermuth O'Connor and others predict that the new crowdfunding rules could be a boon for small businesses — say, a dry cleaner or a chain of pizza shops.

And, says **Eric Young '80**, co-founder and partner at Canaan Partners, a venture capital firm, crowdfunding could offer a lifeline for startups that fall through the cracks under the current investing structure. "The companies we invest in strive for market caps in the hundreds of millions. Or billions," he says. "And there are many startups that are just not of that nature. So we would say, 'No, thanks.' But that doesn't mean it's a bad idea."

And if the big names in contribution crowdfunding jump into the private equity business — Indiegogo has stated interest, Kickstarter has not — that will be a game-changer, says Milner. Those brands are already familiar. "People are going to say, 'Should I spend money and get a t-shirt? Or should I spend money and actually own a piece of the company?'"

Yet Milner, like Pope and others, agrees that the SEC may need to loosen the rules for startups and investors alike, if equity crowdfunding is truly going to pay off for both. But, he says, Title III is a step in the right direction. "It's not perfect," he says. "But I think it's a good start." K

FACULTY EXPERT

MICHAEL FISHMAN

AREAS OF EXPERTISE:
Corporate finance, insider trading, regulation of financial markets

- Research focuses on financial market regulation and contracting.
- Won the 1989 Smith Breeden Prize for Distinguished Paper, awarded by the American Finance Association.
- Serves as associate editor for a number of finance journals and co-edited *A Primer on Securitization* (MIT Press, 1996).

"Building a brand experience that has some theater to it, but also has a really compelling economic side, was kind of the ultimate retail sport."

The paper trailblazer

AS CEO, SALLY POFCHER TURNED A LOCAL STATIONERY CHAIN INTO A NATIONAL SUCCESS

Sally Pofcher '94 was accustomed to hearing it everywhere she went. "I love Paper Source," people would gush, referring to the Chicago-area stationery store. Pofcher herself had fond memories of the store, having shopped at the Evanston store while a student at Kellogg. So it was something of a homecoming when she moved her family from San Francisco to Chicago to become CEO of the company in 2007.

Today's Paper Source is largely unrecognizable from the company Pofcher took the reins of nine years ago. When she stepped into the CEO role, the company had 19 storefronts nationwide. Now, there are 103 Paper Source stores. Annual revenue has increased from about $20 million in 2007 to nearly $150 million in 2015. Online business has grown by 25 percent every year since 2007. Perhaps most important of all, Paper Source has shifted character, from a company once known solely for cardstock and crafting supplies to a more design-driven and curated-crafting experience. Paper Source introduces thousands of new items each year, with almost half of the assortment designed internally.

"Building a brand experience that has some theater to it, but also has a really compelling economic side, was kind of the ultimate retail sport," says Pofcher. "It's been the most exciting professional accomplishment of my career."

Pofcher seemed the ideal choice for Paper Source CEO. She cut her teeth as a partner at McKinsey & Company, working with apparel and footwear companies, then as senior vice president of strategy at The Gap. Her time at each was focused both on revitalizing excitement for brands with flagging customer interest, while also improving merchandise strategies and profitable growth plans.

Building a big business out of a tiny chain of stationery stores that elicited a passion among dedicated customers was Pofcher's challenge as CEO, but her work paid off so much that Investcorp, owners of kitchenware retailer Sur La Table, acquired Paper Source in 2013. Last September, Pofcher transitioned from CEO of Paper Source to become chairman of the company, and a fellow graduate, Winnie Park '99, was named the new CEO.

For Pofcher, the time was right to step aside at a high point and explore new things personally. The same month Pofcher became chairman, Paper Source moved into a new 150,000-square-foot warehouse in Forest Park, Illinois. Plans are in place for great growth in 2016, as Paper Source will end the year with nearly 120 stores nationwide.

"It's definitely hard to separate yourself from something you've built. I think about the products, the store and web experiences, and the team of people who make it happen, and I'm extremely proud of it all," Pofcher says. "It's the right time for me to shift into a coaching and cheering role as a new team continues the Paper Source journey, while I take time to innovate a bit myself." K

BY ANDREW ZALESKI PHOTO BY JEFF SCIORTINO

FUNDING FARMERS, **ENDING HUNGER**

IN 10 YEARS, **ANDREW YOUN ’06** HAS HELPED THOUSANDS OF AFRICAN FARM FAMILIES STAVE OFF HUNGER THROUGH HIS ONE ACRE FUND. HE SAYS HE’S JUST GETTING STARTED.

Immense hunger drives Andrew Youn ’06. But it isn’t his.

It’s the hunger of farm families in Sub-Saharan Africa, where one in 10 children dies of hunger before the age of five. Many farmers fail to coax their land to yield enough crops to sustain themselves — not for want of trying, but due to lack of resources.

At the start of his second year at Kellogg, Youn devised a business solution for this grave social problem: help farmers grow their way out of poverty. In March 2006, he founded One Acre Fund, a nonprofit social enterprise that provides smallholder farmers with seed, fertilizer, training and market facilitation. Skipping his graduation, the native Minnesotan literally left his Midwestern roots behind and moved to rural East Africa to cultivate new ones.

BY CHERYL SOOHOO PHOTO BY RYAN LOUGH

Maize kernels supplied by One Acre Fund during planting season. Maize is the primary crop and staple food grown by the smallholder farmers in East Africa. **Right:** A One Acre Fund community field manager in Webuye, Kenya, gives a group planting lesson.

After his arrival, Youn and his team of five staffers worked with an initial 40 farmers to dramatically increase their crops. In six months' time, the first harvest significantly increased take-home income threefold, with 98 percent of the participants repaying program loans. Today, One Acre Fund serves more than 300,000 farmers in Kenya, Rwanda, Burundi and Tanzania and an additional 500,000 farmers through government partnerships. It employs more than 4,000 full-time staff members.

Experiencing a second consecutive year of 50-percent growth in 2015, One Acre Fund is on track to beat its target of helping 1 million families by 2020. But that's not enough to satisfy Youn, One Acre's executive director and senior partner, and his vision to eradicate hunger in Africa.

"We have hardly begun," says Youn, who will receive the 2016 Schaffner Award along with Managing Director **Matthew Forti '06** at this year's Reunion. "We estimate there are 50 million farm families who could benefit from our model, so we are serving less than 2 percent of the need."

"These simple technologies didn't require an agriculture degree. They just required business skills to expand distribution of resources at a mass scale."

ANDREW YOUN '06
Founder, One Acre Fund

An idea sprouts

Youn grew up in suburban St. Paul, Minnesota. His parents emigrated from Korea and met in graduate school at the University of Minnesota. His father is a retired architect and his mother, a math professor. His younger brother works for the popular home-sharing startup Airbnb. While he had no obvious ties to farming or Africa, Youn learned compassion at an early age. "My mom reminded us every night of people less fortunate," he says. "It helped build empathy in me for the hard-working poor."

Youn graduated magna cum laude from Yale in 2000. After four years as a management consultant, Youn arrived at Kellogg looking to hone his business skills for a future career in the social sector.

During his first year, a Kellogg "Innovating Social Change" conference piqued Youn's interest in the world's second-largest continent. In the summer of 2005, an internship took Youn to South Africa, where he helped link HIV/AIDS patients with treatment options. But it was a two-week side trip to rural Kenya that changed his life.

"I met one farmer who was yielding two tons of food per acre," he recalls. "Her neighbor was yielding four times less food." The thriving farmer, it turned out, used environmentally appropriate seed, applied a tiny dose of mineral fertilizer and properly

spaced her plantings. For Youn, this was his “aha” moment.

“These simple technologies didn’t require an agriculture degree,” he explains. “They just required business skills to expand distribution of resources at a mass scale to empower the poor to solve their own problems.”

Youn returned to Kellogg that fall with an idea, one with huge implications, but now he needed to learn the skills and acquire the resources necessary to launch his grand endeavor.

It takes a ‘Kellogg’ village

Kellogg Clinical Professor of Entrepreneurship Barry Merkin got an inkling of Youn’s persistence before the “pleasant, soft-spoken” student even arrived on campus for his first year. Youn wanted to enroll in Merkin’s course on entrepreneurship and new ventures. Merkin denied his request. Only second-year students were accepted, but his door was always open and Andrew began to visit.

“For the longest time I was convinced Andrew’s plan was crazy,” recalls Merkin, now retired. “Yet the great entrepreneurs often have a passion that seems to exceed reality. They have an idea that works and pretty soon you find yourself going along with it.”

In September 2005, just before the start of his second year, Youn emailed Merkin: *I am even more interested (obsessed?) with improving farm productivity since returning from Kenya this summer. I am haunted by the hunger there. It is the largest killer of children; a human toll that exceeds any disease. But there is an opportunity to change things.*

Youn enrolled in Merkin’s class that fall quarter. Inspiring 10 of his classmates with his One Acre idea, Youn and his team wrote a 30-page business plan that thoroughly impressed Merkin, who says, “It was one of the best I’ve ever seen.” The enterprising second-year student also invested $7,000 of his own money to buy seed and fertilizer and hire staff in Africa to launch a pilot project that would become One Acre Fund. He managed the project by telephone. In the meantime, Youn recruited Forti, a classmate and founding board chair, to start fundraising. They won over more than 100 classmates to the cause.

“I was wowed that a fellow student could make a difference, but I was also a little skeptical that it could actually work,” recalls Forti, who left his consulting job at Boston-based Bridgespan Group in 2013 to become One Acre’s U.S.-based managing director. “Andrew inspires people through his actions. The fact that he had thoroughly done his research and used his own money to get this project off the ground inspired us all.”

Youn Impact Scholars to meet at Reunion for inaugural biennial gathering

Youn Impact Scholars are an elite group of Kellogg students and alumni chosen for their passion and commitment toward creating positive social impact on the world. Named after One Acre Fund Founder Andrew Youn '06, the program is endowed by a gift from Christopher and Courtney Combe.

In May, the 2016 Youn Impact Scholars will join the 2014 and 2015 cohorts for the program's inaugural biennial meeting during Reunion weekend. The event is an opportunity for all three cohorts to share ideas on how to address the world's toughest challenges.

"Just hearing how they build on each other's ideas — both with contacts and with new ways of looking at challenges — is inspirational," says **Sheila Duran**, senior director of the Kellogg Public-Private Interface. "Coming together increases the power of this group to realize and extend their vision beyond their own capabilities."

Although this will be their first formal gathering, Youn Impact Scholars are already realizing the benefits of the network. Last fall, **Nicole Chavas '15** and **Laura Brenner Kimes '15**, co-founders of Fresh Coast Capital, which turns vacant urban lots into tree farms and other agricultural projects, met with **Paul Cheng '03**, founder of SharedImpact, which helps impact investors channel philanthropic funds to change-making organizations. Cheng shared advice on raising capital as Fresh Coast Capital looks to expand their program into new cities this year.

Reaping fruitful partnerships

Youn traveled widely, making countless presentations, but by the end of the school year, he was short on the funds necessary to launch One Acre. Just before graduation, he made a last-minute pitch to the board of the Larry and Carol Levy Institute for Entrepreneurial Practice at Kellogg.

After the pitch, Merkin heard murmuring around the room. He knew Youn needed to raise a significant amount of money or else his fledgling idea was doomed. Says Merkin, "I was thinking, why aren't these people paying attention?!"

While **Larry Levy '67** admits to some of the whispering, it was for a good reason: The board members of the institute bearing his name couldn't contain themselves.

"Andrew's presentation was so compelling and incredibly ambitious," says Levy. "I didn't know whether his idea would be

As planting season approaches, field managers work with community leaders to deliver and distribute farm inputs to the local smallholder farmers. **Right:** A smallholder farmer from Karongi, Rwanda plants maize kernels in her field.

successful, but it was absolutely worth trying." On the spot, Levy and another board member offered Youn and the One Acre Fund their first significant grant, giving Youn the boost he needed.

Additionally, Kellogg Clinical Professor of Strategy **Harry Kraemer**'s recent book *Becoming the Best: Build a World-Class Organization through Values-Based Leadership* (2015, Wiley) features a chapter on Youn. Kraemer is donating all proceeds from this book, just as he did with his first book *From Values to Action* published in 2011, to One Acre Fund. Over the past four years, Kraemer has given more than 600 talks about values and leadership, with all proceeds going to Youn's organization as well.

Youn remains grateful for the encouragement — financial and otherwise — of the Kellogg community. But many say that Youn's unwavering commitment to his vision makes it easy to support him. Northwestern trustee Chris Combe (WCAS70), former CEO and president of Combe Incorporated, said in a 2014 interview, "We need to create more Andrew Youns." Subsequently, the Combe family made a generous gift to Kellogg that year to endow the Youn Impact Scholars, a project that supports budding social entrepreneurs.

Supporters understand that farmers come first at One Acre Fund. In fact, all the organization's leadership and staff, including Youn, live in the same farming communities as their customers. Youn's office overlooks a beautiful hillside, dotted with farms tilled by hardworking farm families whose backbreaking work and desire to live productive lives is never lost on him.

"I proudly serve the strongest people, both physically and mentally, on the planet," he says. "These farmers are my inspiration." K

> “One of the things we’ve learned is creating the right type of process to understand the problem, get to a root cause, fix it and move on.”

The patient executive

AS CEO OF HEALTHCARE.GOV, KEVIN COUNIHAN DIRECTS ONE OF THE MOST PROVOCATIVE INITIATIVES IN RECENT POLITICAL HISTORY

Kevin Counihan '02 started out wanting to make a living by writing music. But after getting his undergraduate degree in music composition and English from the University of Michigan, his night classes at New York's Juilliard School didn't give him much hope.

"One of my teachers told me politely, 'Don't give up your day job' ... It's a tough racket on the creative side," Counihan recalled, laughing. "But I got really interested in health care."

That interest led him to Kellogg and eventually to one of the federal government's most demanding, behind-the-scenes jobs. Since September 2014, Counihan has served as chief executive officer of Healthcare.gov, the insurance program created by the Patient Protection and Affordable Care Act and commonly known as "Obamacare."

In that role, Counihan works to ensure the program has avoided the technical disasters that plagued its rollout in 2013. At the same time, he has overseen a dramatic increase in sign-ups as the uninsured rate has shrunk to record-low levels. He's especially pleased that of the more than 12.7 million enrollments for 2016 coverage effective dates, 4 million were new enrollees — a sign the program is reaching the "higher-hanging fruit" among the public.

Counihan, who was lauded for his previous work as CEO of Connecticut's health insurance exchange, credits Kellogg for instilling in him the management techniques needed for high-level health policy.

"It was the perfect fit for me," he said of the school. "I learned some of the technical skills I've needed: finance, accounting and around corporate collaborations, alliances ... The second piece was the strategic piece, how to think strategically and apply that thinking in a practical way."

Marketing is another skill that Counihan has drawn from his Kellogg education. He has made frequent appearances in cities and towns across the country, highlighting the program's strengths and trying to dispel misconceptions.

Not everything has gone smoothly, though. The Government Accountability Office (GAO) was able to create fictitious applicants who successfully enrolled in the program. And Counihan had to answer to an angry Congress last year for some 820,000 recipients receiving inaccurate tax information for 2014, compelling the Obama administration to give tax breaks to those affected.

"One of the things we've learned is creating the right type of process to understand the problem, get to a root cause, fix it and move on," he said.

As the Obama administration winds down, one of Counihan's goals is to get those following Healthcare.gov to embrace a quality that's often in short supply around Washington, D.C.: patience.

"We need to understand, and to communicate, that this is a multi-year implementation," he said. "Medicare and Medicaid took years. Our system is infinitely more complicated." K

BY CHUCK MCCUTCHEON PHOTO BY BROOKS KRAFT

CREATING WIN-WIN SCENARIOS FOR COMPANIES AND INVESTORS

DIVYA NARENDRA '12 LOOKS TO TURN SUMZERO INTO THE WIKIPEDIA OF INVESTMENT IDEAS

In 2006, Divya Narendra '12 had a conversation with former Harvard classmate Aalap Mahadevia about potential Internet venture ideas. "He knew that I had a background in social media with the founding of ConnectU," Narendra says, referring to the social networking platform he worked on with Cameron and Tyler Winklevoss and future Facebook CEO Mark Zuckerberg. "I had a 'light-bulb' moment," Narendra says.

With his knowledge of the investment research and hedge fund industry, Narendra wanted to build an online community where investors could share research, ideas and job opportunities.

Then in 2007, when his employer Sowood Capital shut down, Narendra saw two options. "I could just go work at another hedge fund or start a business." He chose the latter, and together he and Mahadevia created SumZero. The company name, Narendra says, reflects "the opposite of 'zero sum,' to further the notion that investing doesn't have to be a zero-sum game. Investors can create win-win scenarios by collaborating with one another."

Not long after he lost his job, Narendra enrolled at Kellogg to pursue his JD/MBA. "I wanted to spend that time trying to sort out what the business model would be, who would join the initial team and how would we engender user engagement within the community — those things you need to get a business off the ground," he says.

Narendra describes finding early funding for SumZero as a "major hurdle." While pursuing his studies, Narendra and Mahadevia fully bootstrapped the company. "We outsourced all the programming the first year," he recalls. "It's a struggle to get a good developer on a budget."

In 2008, just as the partners were about to run out of money, the company experienced what Narendra considers its second start date: SumZero received an infusion of $100,000 from an angel investor who ran a small hedge fund in New York City. The investor also happened to be one of SumZero's earliest users. By late 2008, the company started enjoying some press.

In 2012, when Narendra graduated, the Winklevoss twins made their first venture investment by putting a little over $1 million into SumZero, which finally allowed the company to recruit people. "It wasn't until the end of 2012 that we even had our first full-time engineer," says Narendra.

SumZero's third unofficial start date, as Narendra sees it, came in 2013, when SumZero received its first institutional customer. "That was when it felt like SumZero was turning into a real business as opposed to a fun side project," he says.

Now, over 40,000 members subscribe to the company's basic subscription model and Narendra looks forward to more growth, including adding recruiting services and selling more research subscriptions. "If we do all that, we're probably going to have a solid runway of growth ahead of us," he says. K

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