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A Zara store in Manhattan: Controlling the supply chain is key

Zara Thrives By Breaking All the Rules

How the Spanish apparel chain gets new designs into stores in two weeks while keeping costs low

By Kerry Capell

ARTEIXO, SPAIN

Many U.S. apparel retailers are choking on slow-moving inventories as consumers hold back on spending. But Spain's Inditex, whose Zara chain pioneered cheap chic, is zipping ahead. The $13.8 billion company, which is closing in on Gap for the title of world's biggest clothing retailer, has nearly quadrupled sales, profits, and locations since 2000. This year, Inditex plans to expand by up to 640 stores. "They will weather the storms better than most of their rivals," says Michael Lewis, a supply-management professor at University of Bath's School of Management.

Inditex's secret? Besides selling relatively cheap clothes, which fit the times, the company maintains an iron grip on every link in its supply chain. That enables it to move designs from sketch pad to store rack in as little as two weeks. This "fast fashion" way of doing things has become a model for other apparel chains, such as Los Angeles-based Forever 21, Spain's Mango, and Britain's Topshop, which is set to open in New York next year.

Inditex has spent more than three decades perfecting its strategy. Along the way it has broken almost every rule in retailing. At most clothing companies, the supply chain starts with designers, who plan collections as much as a year in advance. At Inditex, Zara store managers monitor what's selling daily—and with up to 70% of their salaries coming from commission, there's a lot of incentive to get it right. They track everything from current sales trends to merchandise customers want but can't find in stores, then shoot orders to Inditex's 300 designers, who fashion what's needed instantly.

HIGHER PAY AT THE PLANT

Typically, apparel chains outsource the bulk of production to low-cost countries in Asia. Inditex produces half of its merchandise in factories in Spain, Portugal, and Morocco, keeping the manufacturing of the most fashionable items in-house while buying basics such as T-shirts from shops in Eastern Europe, Africa, and Asia.

Wages are higher at Inditex—its factory workers in Spain make an average of $1,650 a month, vs. $206 in China's Guandong Province. But the company saves time and money on shipping. Also, Inditex's plants use just-in-time systems developed in cooperation with logistics experts from Toyota Motor, which gives the company a level of control that would be impossible if it were entirely dependent on outsiders.

In addition, Inditex supplies every market from warehouses in Spain. Even so, it manages to get new merchandise to European stores within 24 hours, and, by flying goods via commercial airliners, to stores in the Americas and Asia in 48 hours or less.

Air shipments cost more than transporting bulk packages on ocean freighters. But Inditex can afford them. The company produces smaller batches of clothing, adding an air of exclusivity that encourages customers to shop often. As a result, the chain doesn't have to slash prices by 50%, as rivals often do, to move mass quantities of out-of-season stock. Since the chain is more attuned to the most current looks, it also can get away with charging more than, say, Gap. "If you produce what the street is already wearing, you minimize fashion risk," notes José Luis Nueno, a marketing professor at IESE Business School in Barcelona.

For rivals hoping to mimic Inditex's results, analyst Luca Solca of Sanford C. Bernstein has a bit of advice: Don't follow the Zara pattern halfheartedly. "The Inditex way is an all-or-nothing proposition that has to be fully embraced to yield results." |BW|

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If the Dems Totally Rule the Senate...

What U.S. business can expect should Democrats reach a filibuster-and-veto-proof 60 seats

By Jane Sasseen

If any doubt remained that the troubled economy is the driving issue in the U.S. election, the last two weeks buried it. Now, faced with a roller-coaster stock market and severely crimped credit, some 51% of voters say they trust Democrats more on the economy, vs. 38% for the GOP—the largest gap since June, according to pollster Rasmussen Reports.

Presidential contender Barack Obama has been the biggest beneficiary of this mounting sentiment. But a critical shift is also under way in the battle for Congress. It looks increasingly possible that Democrats could not only retain control of both houses but attain a filibuster-and-veto-proof 60-vote majority in the Senate.

That would have been hard to imagine a few months ago. Each party now holds 49 seats, with two independents usually voting with the Democrats. Analysts have long assumed the Dems would pick up several Senate seats, but even prominent Republicans such as Elizabeth Dole of North Carolina and John Sununu of New Hampshire lag in recent polls. Charles E. Cook Jr., editor and publisher of the nonpartisan *Cook Political Report*, predicts Dems will gain six to eight seats. "But could it be nine? Or 10?" he asks. "Yes."

If the Democrats reach—or even get close to—60 votes, legislation that business has fended off in recent years with help from Republican allies will be tougher to hold at bay. That's particularly true if Obama is elected. "The Democrats will be very constrained on spending, so they will have to get more of their policies across with regulation and mandates," says Daniel Clifton, the Washington policy analyst for Strategas Research Partners, an institutional investment firm. "A lot of issues important to business—and to investors—face a growing risk." Here's where the impact could be greatest:

With spending constrained, says one analyst, Dems will have to enact their policies using regulation and mandates

The Bankruptcy "Cramdown": The financial-service industry has long battled efforts by Dems to allow judges to modify mortgages in bankruptcy court and save struggling homeowners from foreclosure. In the industry's latest victory, bankruptcy changes were kept out of the Treasury's $700 billion bailout plan. But congressional Democrats are talking informally about bringing the issue back next year.

Drug-Price Controls: When the Bush Administration expanded Medicare to cover prescription drugs in 2003, Big Pharma quashed efforts to allow Medicare to negotiate lower prices. Those days could soon be over. To whack health-care costs, the Democrats want the government to haggle over prices just like a private insurer would.

Taxes: Victory could lead to another round in the fight to tax private equity partners' profits at regular income tax rates rather than the lesser capital-gains rates they now pay. If the Dems do make it to 60, says Anne Mathias, who oversees policy research for institutional broker Stanford Group, watch for a move to end the tax breaks companies get on income earned overseas.

Energy Alternatives: A host of energy issues could return to the table. Stalled measures to increase efficiency standards in new buildings could move ahead, as could a windfall tax on oil profits and limits on speculative energy trading. A measure requiring utilities to buy more solar and wind power will likely return, too.

Union Rules: Labor's top priority is passage of the Employee Free Choice Act, which would allow workers to unionize if a simple majority sign authorization cards, eliminating the secret ballot. Unions believe the proposed law will boost declining rolls, but it has been vigorously opposed by the U.S. Chamber of Commerce. "It's definitely in play," says a congressional aide. |BW|

TIM BOWER

Wireless Web Phones For Less Than $50

Hutchison Whampoa will go head to head with Nokia and Apple—and price isn't its only pitch

By Olga Kharif

Frank Meehan isn't even officially in the cell-phone business yet. But already he has plans to shake it up.

Meehan is a top executive at Hutchison Whampoa, the Hong Kong conglomerate that operates ports, retail stores, and wireless-service providers around the world. On Oct. 13 he plans to unveil a new Hutchison subsidiary, INQ, that will make cell phones in competition with Nokia, Motorola, and Apple, among others. Hutchison wants to slash the price of phones that let people surf the Net and tap social networking sites. The goal is to get more people to use the phones—and let companies such as Hutchison profit from selling Net services. "We're tired of paying a fortune for phones that are unusable," says Meehan.

The INQ1 (left) and INQ chief Meehan: Offering new ways to use popular Web services

The move may help lower the prices of advanced mobile phones for consumers and stiffen competition among phone makers. Phones that can surf the Web—such as Apple's iPhone and Research In Motion's BlackBerry—cost Americans an average of $174, says researcher NPD Group. INQ will sell its phones to carriers at prices low enough that they're expected to cost consumers $50 or less, with some devices free after subsidies from wireless operators. "I need to hit the 90% that don't buy [higher-priced phones]," says Meehan, CEO of INQ.

The company's first phone, the INQ1, is due out in Britain and Australia this year and in seven other markets where Hutchison has wireless operations in the first half of 2009. The phone is likely to debut in the U.S., where Hutchison doesn't have a wireless business, next year. Sony Ericsson, Nokia, and Samsung may be the first to feel the pinch, since they're the primary mobile-phone suppliers to Hutchison. A Samsung spokesman says devices that sell for $120 or more typically offer the best Web experience.

INQ's pitch isn't just low prices. It has built into its phones new ways to use popular online services such as Facebook, eBay, and Skype. For example, the company worked with Facebook so the INQ1 can automatically display on its home screen new photos friends post on their Facebook profiles. "This is the first time we are going to take the experience further than what we have on the iPhone and [BlackBerry]," says Henri Moissinac, manager of Facebook Mobile.

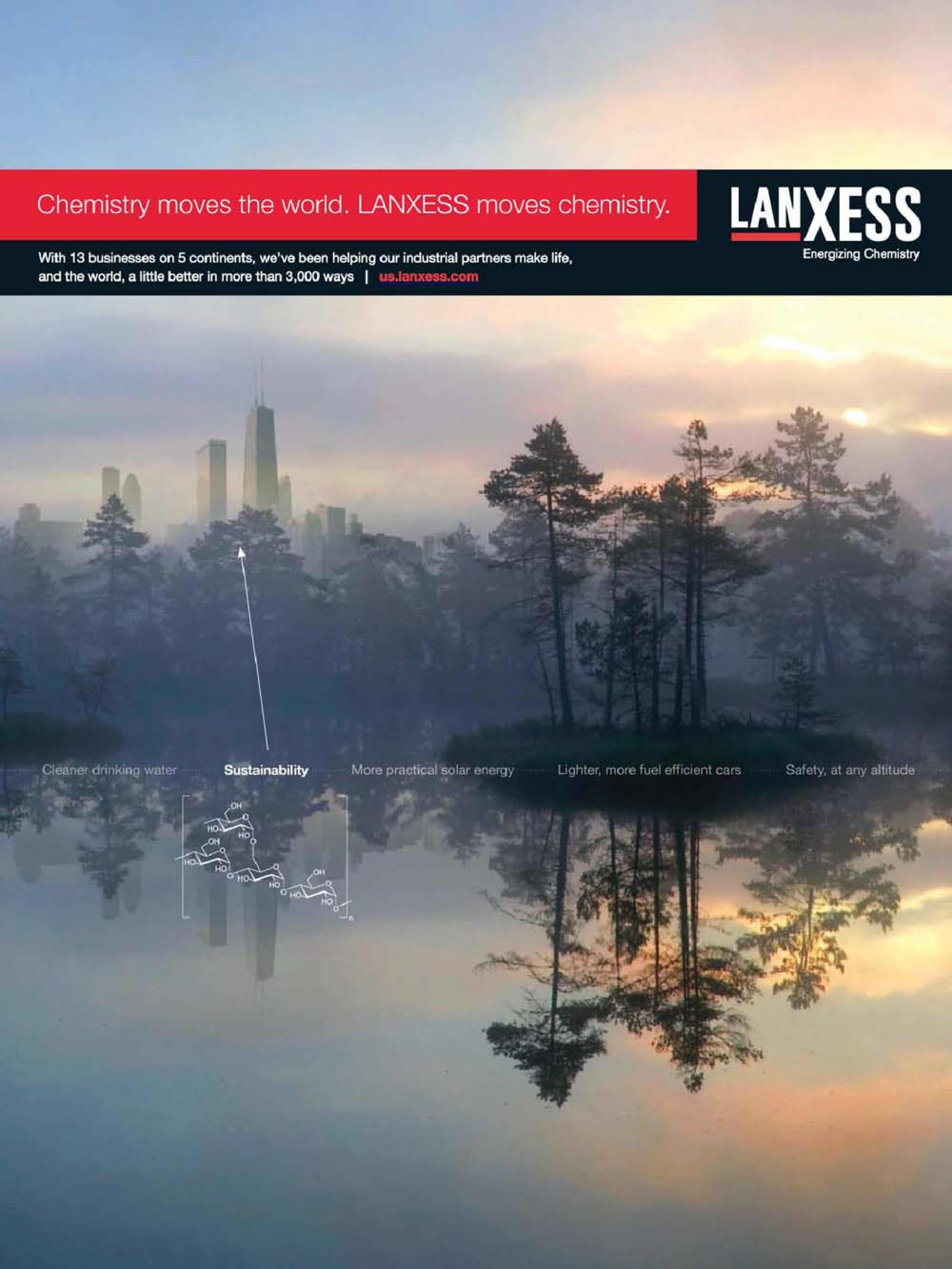
"A DIFFERENT ANGLE"

To fuel their growth, wireless operators are counting on more customers tapping the Net. Wireless data plans typically cost $20 or $30 a month on top of voice charges. Maxis, which provides wireless service in Malaysia, India, and Indonesia, may start offering INQ phones next year. "It's a different angle from what other phone manufacturers are doing," says Nikolai Dobberstein, Maxis' head of strategy. "It's no longer about just browsing: It's about making your favorite applications and Web sites available on the phone."

INQ's phones have limitations, which may make them a tough sell to carriers not affiliated with Hutchison. INQ plans to save money by using proprietary software instead of a standard operating system such as Windows Mobile. That will limit the software that can run on INQ's phones. The phones will be made by contract manufacturers in China and Taiwan.

Meehan has shown he can outmaneuver rivals, though. Last year he and his team designed the 3 Skypephone, which lets customers make free wireless calls to any Skype user. The phone is a huge hit, though only Hutchison subscribers can use it. "Hutchison tends to be the contrarian," says John Jackson, a vice-president at consultant Yankee Group. "You can bet all operators globally keep an eye on what they are doing." |BW|

JAMES DAY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Lilly's Risky Rush Into Cancer Drugs

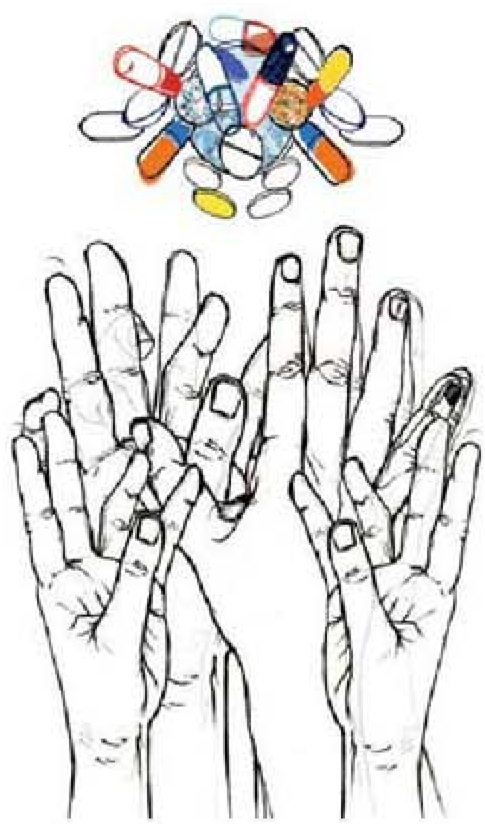
Short of blockbusters, it's buying ImClone for some experimental treatments. But have prices hit a wall?

By Catherine Arnst

Pharmaceutical giants face a conundrum, as illustrated by two recent events. Eli Lilly agreed to pay $6.5 billion in cash for ImClone Systems to get its hands on a roster of experimental cancer drugs. And Roche, bowing to pressure from Britain's National Institute for Health & Clinical Excellence (NICE), slashed the price of lung cancer drug Tarceva by $1,200 to $10,830 per four-month course of treatment. Roche says it wants patients in Britain to benefit from Tarceva and that it is working with NICE, an independent body that advises the British National Health Service.

How are these two developments related? Pharmaceutical companies are charging into the cancer arena, convinced that these costly treatments will open a new path to revenue growth. But national health authorities are balking at the drugs' high prices, given that most of them extend life by only a few months. If insurers in the U.S. follow suit, Lilly and its pharma peers could run into severe pricing constraints.

"At some point—and that point will come sooner rather than later—payers are not going to approve spending $100,000 for someone to live an extra six months," says Erik Gordon, director of biomedicine at Stevens Institute of Technology. David Balekdjian, a partner at strategy consulting firm the Bruckner Group, confirms that "for many diseases, U.S. insurers are rigorously examining the outcomes new drugs produce, relative to their cost." As insurers increasingly scrutinize



cancer drugs, "many will never reach their markets," Balekdjian warns.

In the world of giant pharma companies, cancer medicine has long taken a backseat to heart treatments, depression drugs, sleep aids, and other billion-dollar sellers. Because cancer treatments often consist of complex protein molecules that take years to develop, the drug multinationals left these risky products to small biotech ventures such as ImClone. But lately drugmakers have been embracing cancer treatments, in part because older blockbusters such as Pfizer's Lipitor and Lilly's antipsychotic Zyprexa are approaching the end of their patent life. Moreover, because of safety concerns, the U.S. Food & Drug Administration is reluctant to approve pills taken by millions of people for minor ailments. But the FDA demands less of cancer drugs that could save patients who face near-certain death.

Cancer drugs also require little marketing support—no TV ads or lavish magazine spreads. Oncologists tend to be hyper-aware of any new treatment that might help mortally ill patients. "You don't need thousands of sales reps, you just need good data," says Lazard Capital Markets analyst Gene Mack.

Best of all for makers of cancer drugs, these products have long enjoyed considerable pricing power because they are so difficult to develop. Genentech's Avastin costs up to $100,000 a year. Erbitux, ImClone's only marketed drug, costs around $10,000 a month and pulled in revenues of $1.3 billion in 2007. That's why Lilly is willing to make its largest acquisition ever, and why Pfizer is exiting heart drugs in order to focus on treatments for cancer, as well as Alzheimer's and diabetes.

WHAT WILL INSURERS COVER?

The cost controversy could end up limiting the cancer market's promise, however. Last April, Bristol-Myers Squibb, which holds 60% of the North American marketing rights to Erbitux, bowed to Canada's health authority and dropped the drug's price there. Britain's NICE already restricts the use of Erbitux due to cost. And in August it rejected four kidney cancer treatments, among them Pfizer's Sutent and Genentech's Avastin, for that reason.

The pricing environment is "becoming more challenging," acknowledges Dr. Richard Gaynor, Lilly's head of cancer research. The company has been discussing drug development with insurers to get a handle on what they are willing to pay for, he says.

—With Kerry Capell in London

"Payers are not going to approve spending $100,000 for someone to live an extra six months" warns an expert

COURTNEY WOTHERSPOON

Will Americans Buy Four-Cylinder Luxury?

BMW is betting horsepower-mad U.S. drivers will go for cleaner and greener

A smaller engine will help BMW's 3 Series meet tighter U.S. regulations

By David Kiley

BMW's headquarters in Munich is practically a work of roadside art. Built from four 20-story cylinders that join in the center, it's an homage to the four-cylinder engines that powered the automaker's fuel-thrifty offerings in Europe in the late-1960s when the building was designed.

Though four-cylinder cars still account for most of BMW's sales in Europe today, the last such model the company sold in the U.S. was the 1998 318Ti, a car so spectacularly unsuccessful that BMW executives are often embarrassed to discuss it.

That was then. Now BMW is making a risky bet that a big chunk of its U.S. sales will be "four-bangers" by 2012, including the majority of its best-selling midsize 3 Series, the compact 1 Series, and even a few of its full-sized 5 Series. The company believes a new breed of four-cylinder engines will help satisfy tougher U.S. fuel economy and emission regulations without hurting its reputation for agile power. But BMW and other luxury automakers jumping into this game face some major marketing challenges. Not least, they must persuade American drivers that these smaller engines are powerful enough for $35,000-plus premium sedans, and not just the usual econo-boxes.

DIRECT INJECTION

The new four-cylinder engines promoted by several carmakers use direct injection technology, which forces gas straight into the combustion chamber at higher pressure than in conventional engines. This results in higher fuel efficiency and lower emissions. Adding turbo-chargers, which push extra air into the combustion chamber, results in greater horsepower, even though the engine is smaller. "Legislation is dictating that we be greener," says Jim O'Donnell, CEO of BMW North America. The challenge, says Jessica Caldwell, industry analyst at Edmunds.com, will be orchestrating suppliers, factories and marketing, and all the while keeping sales of the "bread and butter" 3 Series humming.

Will American drivers buy this pitch? Audi's experience suggests it won't be easy. Cars with four-cylinder engines currently make up about 80% of Audi's A4 luxury models. Because of the small engines, though, consumers often don't place the brand in the same class as Mercedes, BMW, and Lexus, executives at Audi admit. It's a sore point with Scott Keogh, chief marketing officer with Audi of America, but perceptions may be changing. "Now we think the market has turned toward what we do best: powerful but fuel-efficient vehicles," he says.

Audi's newest four-cylinder engine generates 211 horsepower, 20% less than its six-cylinder counterpart. But the smaller motor delivers 15% to 25% better mileage, depending on options, and zips the car to 60 mph in 6.5 seconds, only a hair slower than its bigger sibling. That's helping win fans. "Younger people, who prefer BMW, Audi, and Infiniti, are not hung up on the number of cylinders," says Earl Hesterberg, CEO of auto retailing giant Group 1, in Houston. "They appreciate technology like turbochargers, and tilt to the 'green' side when they can."

Detroit is listening. By late 2010, General Motors will bring out a four-cylinder Cadillac sedan about the size of a BMW 3 Series. The goal is a 260-horsepower car that beats rivals in mileage. But GM also is hedging its bets with a six-cylinder option. It's possible U.S. drivers will become "un-American" about their preferences for power on the open road, says Cadillac General Manager Jim Taylor. "But it's not coming as fast we might think." |BW|

–With David Welch in Detroit

Opening Bell host Glick broke news of the Citi-Wachovia dispute

Fox Business Seizes the Moment

The economic crisis may give Murdoch's year-old business channel a lift in its battle with CNBC

By Ronald Grover

After September 11, the combative patriotism of Fox News anchors helped the network overtake CNN in the ratings in a matter of months. Now, as the economic crisis deepens, the year-old Fox Business Network hopes its raging populism and extended coverage will give the channel a chance to gain on its well-established, less pugnacious rival, CNBC.

When the Administration first proposed the $700 billion bailout, FBN scrapped its regular weekend schedule and put its anchors on to answer calls from anxious investors. With a deal imminent, Washington correspondent Peter Barnes went on air at midnight with a report that was simulcast on Fox News Channel. On that Monday, FBN placed ads in *The New York Times* and *The Wall Street Journal* chiding CNBC for sticking to its normal weekend schedule, which includes infomercials. "We're dealing with the real issues that are hitting people at home, and they're selling girdles," says Kevin Magee, Fox News executive vice-president. Since then, Fox has run a banner on screen declaring: "We own this story." And it has kept up its weekend coverage. CNBC declined to comment.

Fox plans to attract people who don't normally watch business news. "If we just divide up CNBC's audience there won't be enough for either of us to survive," says Magee. FBN has introduced an onscreen "fact box" that regularly defines the more arcane financial terms for viewers. It is sending reporters back to their hometowns (from Waretown, N.J., to Ruidoso, N.M.) to interview folks about the local business climate. According to data obtained by *BusinessWeek*, on the day that the Dow fell 778 points, more than 100,000 people watched FBN's two prime-time shows, *America's Nightly Scoreboard* and *The Dave Ramsey Show*, which offers personal financial advice. That's more than four times the size of FBN's typical audience.

WATCHING THE MELTDOWN

The crisis has helped boost viewership, but newcomer Fox is still way behind CNBC

AVERAGE DAILY VIEWERS	
CNBC	541,000
FBN	32,000

Data: Nielsen, *BusinessWeek* estimate

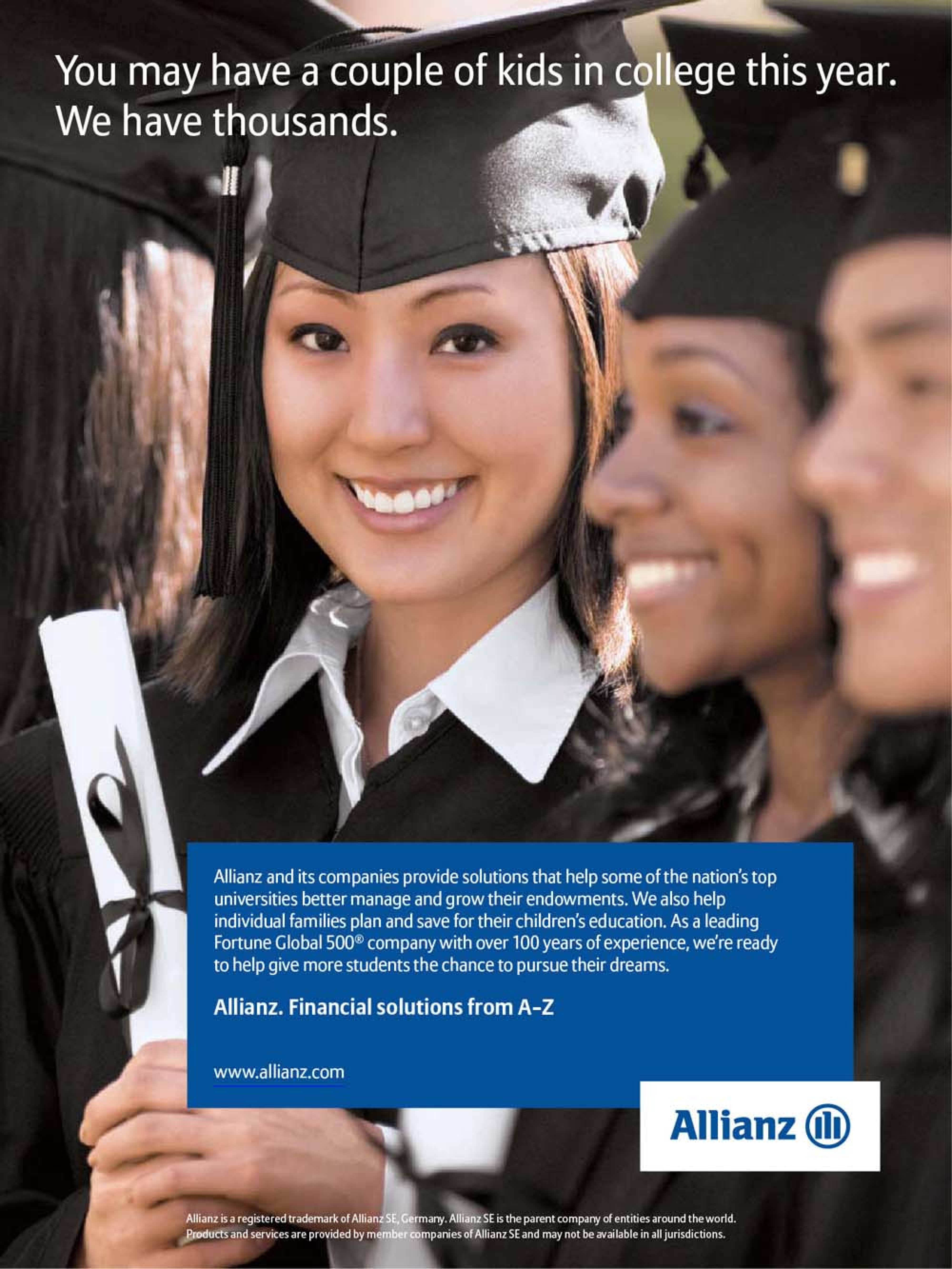
SKIMPY NUMBERS

FBN is also being given more prominence within owner Rupert Murdoch's vast news empire. FBN reporters have been appearing regularly on Fox News to explain the financial turmoil. When Alexis Glick, the morning anchor, broke the news that Citigroup intended to challenge the deal between Wells Fargo and Wachovia, Dow Jones Newswires picked it up right away and credited Fox Business with the scoop.

Still, FBN has a long way to go before it's a serious threat to CNBC. It is available in only 42 million homes, compared with 95 million for CNBC. Even in the homes that can receive FBN, it is often found way up in the so-called digital tiers, where people don't tend to channel surf. *BusinessWeek* estimates that about 32,000 have been tuning in daily during the meltdown. CNBC's typical audience has been about 541,000, according to Nielsen Media Research. Neil Cavuto, who joined the fledgling Fox News in 1996 and today hosts shows on both channels, jokes that working for FBN is like being in the Witness Protection Program, much like Fox in the early days, he says.

The channel may lose $48.2 million this year and a total of $158.6 million by 2010, according to SNL Kagan analyst Derek Baine, but he predicts it could break even by 2011. If so, FBN will have achieved that success in four years. It took Fox News five years to break even. |BW|

JENNIFER S. ALTMAN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A CONTRARIAN'S GUIDE TO UGLY MUNIS

By Aaron Pressman

THE MUNI MARKET

Ronald Fielding prospers by buying tax-exempt bonds that others hate. While the typical municipal bond mutual fund is packed with plain vanilla, low-risk bonds backed by the general taxing power of states and cities, Fielding, who runs the Oppenheimer Rochester family of 18 muni funds, specializes in the most unloved, lowest-rated, and seemingly riskiest tax-exempt bonds in the market. Whether by loading up on munis supported by payments from airlines or by buying the bonds of obscure public financing agencies, he has succeeded at finding gems in what everyone else considers trash. "Show me the stuff that's ugly, and let me decide if there's a valid reason for why everyone finds it disgusting," he explains from his corner office a few miles from downtown Rochester, N.Y. "Then I'll find out what's disgusting, but not bad."

Fielding's contrarian style, a rarity in the world of muni bond investing, means that his fund performance is awful every few years—whenever a major sell-off hits. But those declines provide the opportunities that have helped his fund outperform over the long haul. "They do take on a lot of risk," says Morningstar analyst Greg Carlson. "But they've got a pretty impressive research team, and they've gotten so many calls right over the long term."

One of Fielding's worst years was 2002, when a wave of bankruptcies by power providers and telecom companies spooked bond markets. Investors dumped the lower-rated muni bonds he owned. His New York muni fund trailed the average return for similar funds by four percentage points for the year; it was worse than 60% of its competitors, according to Morningstar. As the market tanked, Fielding built up a 20% stake in "inverse floaters," notoriously volatile securities whose yields rise when interest rates decline. And as the post-Enron panic subsided and rates on munis fell, yields on the bonds jumped and the fund performed magnificently from 2003 through 2006, beating the average of its peers by almost four percentage points a year and outperforming at least 97% of its competitors in each of those four years.

Fielding, 59, discovered early on that many investors were confused by the very nature of nonprofit government bond issuers. In 1978, at his first portfolio management job, he was surprised to learn that analysts at his firm, a bank now known as Chase Lincoln First, considered the New York Power Authority too risky. The analysts saw that its revenue barely covered interest payments owed. What they missed was that the Authority, a nonprofit, was selling electricity at rates far below the market and could raise rates if needed. "I said, 'Don't look at what they make now—figure out what they could make if they charged market prices,'" recalls Fielding.

In 1986 he opened his first mutual fund, which focused on New York munis. Again, Fielding found rich opportunity when other investors dumped what they considered risky debt. The State of New York Mortgage Authority had issued nine series of bonds in the mid-1980s, when rates were relatively high, to generate funds to lend to homeowners. But when rates tumbled in the second half of 1987, potential borrowers found they could get lower rates from banks. So the Authority, relying on an overlooked loophole in its bond documents, retired a large portion of the debt early. Furious

12% to 20%

Yields that Fielding's funds got by buying auction-rate securities in February 2008

JAMES RAJOTTE/WONDERFUL MACHINE

Investor panics hurt short-term returns but offer Fielding his best opportunities

investors, who had bought the bonds thinking they couldn't be retired early, began selling. Fielding scooped up the bargains and collected a yield of almost 10%. That sent the yield on his fund to the top of the charts, dramatically boosting sales. In two years, assets grew from $5 million to $50 million. Fielding sold his management firm to Oppenheimer in 1996.

Investor disgust with the airline industry has provided Fielding some of his best picks. Airline stocks have lost tens of billions over the years through dozens of bankruptcies. Fielding looks for bonds issued by public authorities to fund airport facilities such as terminals, with interest payments coming from the leases airlines sign. Known as private activity bonds, airline-backed munis are among those most feared by conservative investors. (An airport can overbuild, leaving a terminal unused.) But many of the bonds are secured by leases on busy terminals at crowded airports. When an airline goes bankrupt, the court often allows it to continue leasing such a terminal; if not, another airline may grab the lease.

Fielding's fund still owns bonds issued in 1990 to build a terminal at LaGuardia International Airport, backed by lease payments from Eastern Airlines. Eastern went bankrupt before the project was finished, and Continental Airlines took control of the terminal. Continental lost its lease in bankruptcy, and the terminal went to US Airways Group, which has gone bankrupt twice in recent years. In all that time, Fielding has received regular payments on the bonds, which pay a 9% tax-free rate. "The land is so valuable that even though the airlines go bankrupt like a machine gun, those bonds are terrific," he says.

PUERTO RICO'S PAPER

Fielding's most recent big score came when the auction-rate securities market froze up in February. The securities are long-term bonds with variable rates that reset as often as weekly. Until the market seized up and sent some yields soaring, they were used by muni issuers to bring down the cost of long-term borrowing. Targeting high-quality issuers like the Port Authority of New York & New Jersey, Fielding plunged in, drawing down an entire $1 billion credit line. His funds collected yields of 12% to 20% for a few months as issuers refinanced and retired the securities. "It was fun," he says with a laugh.

More recently, he's bought bonds issued by Puerto Rico and its agencies. Bond rating firms have announced that starting this month, they'll raise ratings on many general obligation munis relative to corporate bonds, since munis default less frequently than corporates. Since Puerto Rico is one of the lowest-rated investment-grade issuers, Fielding thinks its bonds will gain the most from the new approach.

So far this year, Fielding's New York fund, his largest, is down 13%, its worst nine-month total return ever. He says that's due to investor flight from the kinds of bonds he favors. Noting this is the only time in 15 years that his more-than-1,000-issue portfolio hasn't included a single defaulted bond, he says the drop is temporary. To Fielding, it means happy hunting. | BW |

Notwithstanding four airline bankruptcies, Fielding's 18-year-old LaGuardia terminal bonds have never failed to pay 9%, tax-free.

MAPPING THE RISKY NEW WORLD OF MUNIS

By Ben Levisohn

THE MUNI MARKET

Many municipal bond investors are enjoying unusually high yields. While returns on munis have historically been about two-thirds those of U.S. government securities, they are paying higher rates than Treasuries in the current credit crisis—roughly 4.2% on a top-rated, 10-year bond. (A 10-year Treasury yields 3.61%.) In the taxable world, that 4.2% is equivalent to a 6.4% yield for someone in the 33% tax bracket. And these bonds have rarely, if ever, defaulted.

What's going on? The muni market is roiled by jitters over how an economic slowdown—and the resulting lower tax revenues—will affect the ability of municipalities to pay their debts. "Either the market is mispricing the risk because of the turmoil in the credit markets or it is forecasting that we are going into a depression," says David Kotok, chairman and chief investment officer of Cumberland Advisors, a Vineland (N.J.) money management firm.

It's a bit of both. Municipal bonds have been in the news recently, and for all the wrong reasons. In Alabama, Jefferson County is poised to declare bankruptcy—the largest muni bankruptcy ever—if terms on its bonds can't be renegotiated. Other municipalities, including East Bay Municipal Utility District in Oakland, Calif., use complex financial instruments called interest rate swaps, which leave them open to risk if the financial institution on the other side of the deal should fail. With the economy sliding into recession, cities and states will have a tougher time meeting budgets as tax revenues fall. "There's more credit risk than in the past," says Greg Friedman, chief investment officer of adviser Greycourt & Co. in Portland, Ore.

Issuers sold a mere $878 million worth of munis from Sept. 29 to Oct. 3—14.6% of the average weekly total earlier this year

But the fall in bond prices has as much to do with technical issues in the market as with fear of default. The problem started early in 2008, when the bond insurers' sideline of insuring mortgage-backed securities blew up. This lowered their AAA ratings and those of the muni bonds they insured. At the same time, hedge funds and other institutions looking to raise capital by selling their most valuable assets dumped munis, which caused prices to plunge. Then the auction-rate securities market, which municipalities use to borrow short-term funds for their long-term needs, dried up. That left the muni bond market jammed with cities and states looking to issue longer-term bonds. But no one was buying. As the credit crisis deepened, investors rushed into Treasuries. Issuers sold only $878 million worth of bonds from Sept. 29 to Oct. 3, down from $1.4 billion two weeks earlier—and

BYRON EGGENSHWILER

from an average of $6 billion a week earlier in the year, according to Bloomberg Financial Markets. "People want diamonds right now," says Richard Ciccarone, chief research officer of McDonnell Investment Management. "And munis aren't perfect diamonds."

In such an unsettled environment, muni bond investors need a new road map. Individual investors, whether creating their own portfolio of bonds or choosing among muni bond funds, used to be able to look at credit ratings and be reasonably certain they were getting safe investments: Only 0.15% of investment grade bonds defaulted from 1986 to 2008, according to Standard & Poor's. But with one investment-grade municipality—Vallejo, Calif.—already bankrupt in 2008 and Jefferson County perhaps preparing to follow, ratings are a place to start the process, not finish it. Gauging true credit-worthiness now requires more digging.

PITTSBURGH HAS PLUSES

Investors need to take greater care in checking out the source of their bond's interest income, or in making sure that their fund manager or financial adviser is doing so. The more sources of revenue that support a bond, the less likely it is to default. A city with multiple revenue streams—income tax, sales tax, and property tax, for instance—will be more likely to make good than a smaller town or a school district that can tax only property, especially in a world of falling real estate. While AAA-rated bonds are the safest, some experts, including research firm Municipal Market Advisor's managing director, Matt Fabian, see value in BBB-rated general obligations, the lowest of the investment grades. Fabian offers the example of Pittsburgh, a BBB-rated bond that offers a yield of more than 5%, a point and a half above the average AAA-rated bond—and equal to more than an 8% taxable return if one assumes a tax rate of 35%. Because of its diverse revenue streams, Pittsburgh may be insulated from some of the general economic fury, and so may be a better bet than a smaller municipality.

Revenue bonds, backed by proceeds generated from a distinct project, have always been slightly riskier because of that single income stream. Now, however, investors should seek out bonds funding truly essential services, such as water treatment, sewers, and utilities.

For the truly risk-averse investor looking for a little more yield than a Treasury offers, there are pre-refunded munis. What are pre-res? When a municipality wants to pay off a bond, it can buy Treasuries, place them in an escrow account, and use the proceeds to pay the muni bond's premiums, making them almost as safe as a U.S. bond, but tax-free.

Before the credit crisis, pre-res drew little attention. But with safety at a premium, they've held up better than other munis. For example, a Treasury expiring in five years has a 2.65% rate. An Orlando pre-re muni maturing in four years carried an interest rate of about 3.2% as of early October, giving investors half a percentage point more for what is essentially the same security. With these bonds, "it doesn't matter if a municipality falls into the ocean," says Daniel Genter, president of RNC Genter Capital Management. "You'll get your money back." |BW|

GETTING INTO MUNIS: THE TRADE-OFFS

	PRO	CON
If you buy muni bond funds...	Fund managers have access to better research and better prices	The fund's value fluctuates with the bond market, so investors can lose money even if no bonds default
If you buy individual muni bonds...	Fluctuations in bond prices won't be an issue if investors hold until maturity	Expensive to purchase individually. Disclosure in the municipal world leaves much to be desired

Business Exchange

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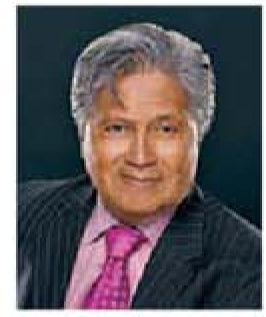
Muni Ratings Redux

Prior to 1929, almost all muni general obligation bonds were rated Aaa or Aa. By 1935 as many as 3,252 munis had defaulted, says an April paper by McDonnell Investment Management. The Great Depression ushered in tougher rating standards. The paper cautioned "those who advocate sweeping upgrades to municipal government ratings (presumably to Aaa and Aa levels)" to beware a "complacency of positive expectations." On Oct. 7—after the story on page 78 went to press—ratings firms postponed recalibrating muni ratings because of market conditions.

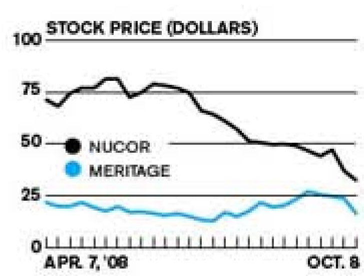
To read the paper, go to http://bx.businessweek.com/municipal-bonds



STEEL AND HOUSES: PICKS FOR BLOODY DAYS

"The time to buy is when blood is running in the streets," financier Baron Rothschild is said to have remarked during the Paris panic of 1871. When everyone else was selling, he was buying. Is it time to heed this mantra, which contrarians swear by? Following the sell-off of Bear Stearns, the collapse of Lehman Brothers, and the government seizure of AIG, Europe's rush on Oct. 6 to bail out several of its big banks caused world markets to plunge. That day the Dow Jones industrial average plunged 369.88 points, or 3.58%, to 9955.50, the first close below 10,000 in four years. By Oct. 8, the Dow stood at 9258.

NUCOR AND MERITAGE HOMES



Data: Bloomberg Financial Markets

To George Putnam, editor of *The Turnaround Letter*, the situation looks bloody enough to make this a time to start buying. He notes that in most market crashes since 1974, the Standard & Poor's 500-stock index posted double-digit gains 12 months later. So good news may lie ahead.

Jeffrey Kleintop, chief strategist at investment firm LPL Financial, thinks so. He says: "When we look at past recessions that took place in the aftermath of crises, the stock market typically posted a gain during the recession," as it did in 1981-82 and 1990-91. The turning point in past recessions was intervention by policymakers, he adds.

In this environment, most analysts focus on companies with strong cash flow, profitability, sales, and dividend yields. Leo Larkin of S&P has a buy on Nucor (NUE), the No.1 U.S. steel minimill, with one of the most diverse product lines of any steelmaker.

"Nucor is a vehicle for capitalizing on the consolidation of the global steel industry," says Larkin. He also sees accelerating free cash flow due to a combination of rising net income and generally moderate capital spending for the next several years. That should enable Nucor, he says, to raise its dividend, make acquisitions, and invest in new steelmaking technology. Larkin sees Nucor, now at 32.31 a share, rising to 66 in 12 months, based on his earnings estimate of $7.04 a share in 2008, up from $4.94 in 2007.

Bernie Schaeffer of Schaeffer's Investment Research recommends buying homebuilders. His top choice: Meritage Homes (MTH), whose stock has held up relatively well in the crisis. Down to 7 on Jan. 22, it rocketed to a 52-week high of 29.49 on Sept. 19. But it fell to 19 on Oct. 6, the day of the big Dow tumble, and is now at 16.35. Schaeffer, who owns shares, remains bullish, however. Meritage, a builder of single-family houses in such states as California, Florida, and Texas, is improving its cash position better than its peers, he says. It outperformed the homebuilders ETF group by 50% in the past year. Schaeffer's 12-month target: 40.

ROBUST AT ATHENAHEALTH

Data: Bloomberg Financial Markets

Athenahealth, the Doctor's Friend

In times of economic woe, doctors get more cost-conscious. So demand is rising for the services of Athenahealth (ATHN), the largest publicly traded provider of Web-based systems that automate and manage billing-related functions for physicians. It has over 13,500 medical providers in its national network.

Athena's services help health providers get "faster reimbursement from payers, reduce errors, hike collections, cut costs, and efficiently manage clinical and billing information," says Richard Close of investment firm Jefferies (it has done banking for Athenahealth), who rates the stock a buy.

Sean Wieland of Piper Jaffray says Athenahealth (a client) is largely insulated from the economy's swings by its fee-based revenues. He rates the stock, now at 26, a buy with a year's target of 37. He sees profits of 55¢ a share in 2008 and 65¢ in 2009, vs. 26¢ in 2007. | BW |

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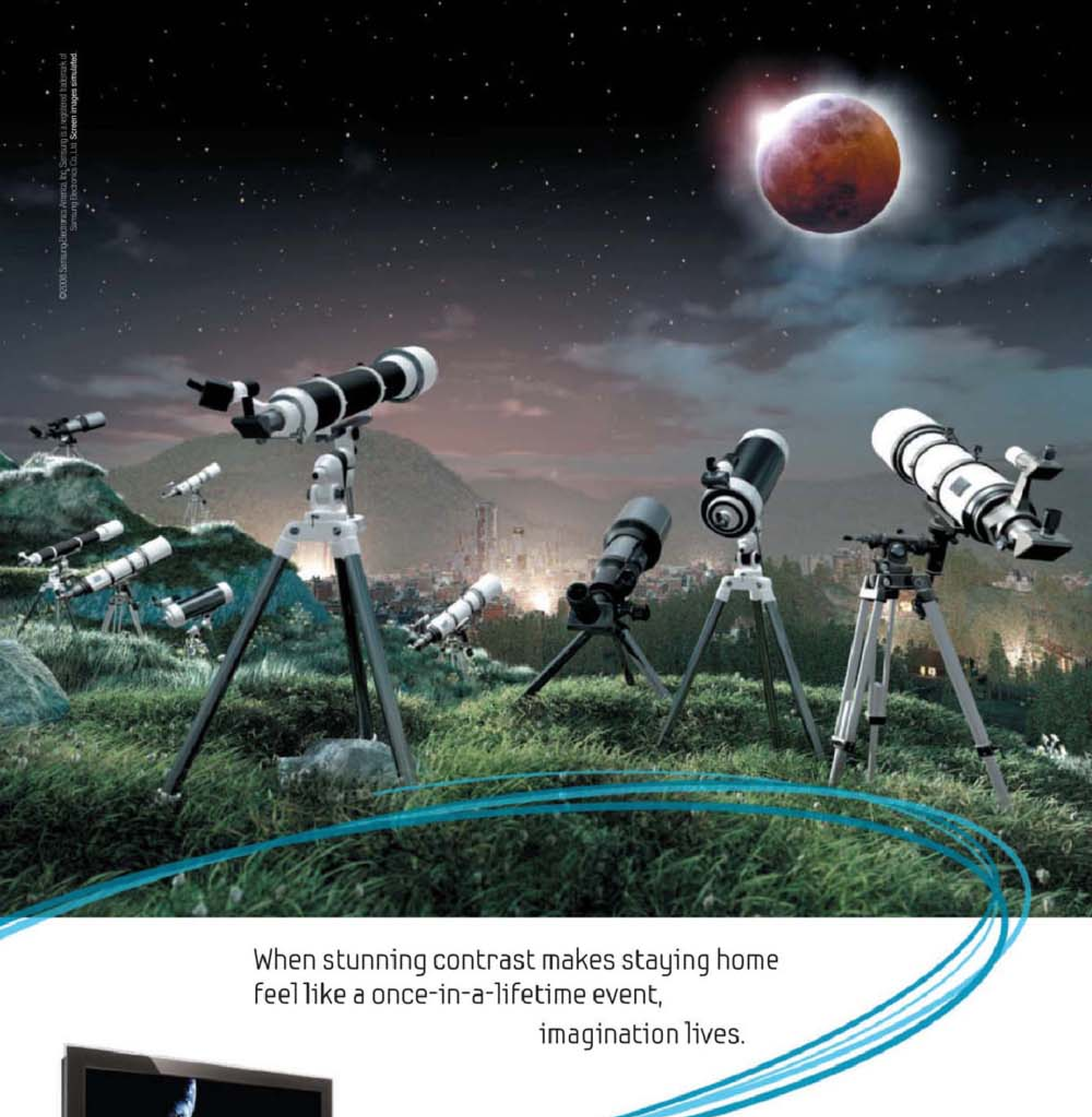

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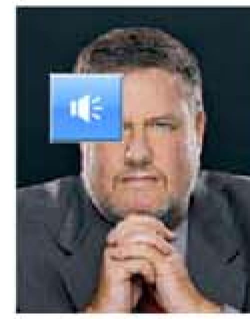

A Screen the iPod Can't Touch

The new BlackBerry Storm's touch-screen keyboard is radically different—and better

Back in 1999, an obscure Canadian company called Research In Motion defied conventional wisdom and put a keyboard on a pager-size device, creating the first BlackBerry. Now RIM has struck again, this time by eliminating the physical keyboard from its new BlackBerry Storm smartphone. The Storm will be available later this fall from Verizon Wireless in the U.S. and from Vodafone in Europe and parts of Asia.

Apple's iPhone made the world safe for onscreen keyboards, but the Storm is radically different and (based on the hour or so I spent with the handset) considerably better. The Storm uses a touchscreen similar to the iPhone's, where you move your finger lightly on the surface to navigate around the screen. To confirm a selection or menu choice, you press harder. The slight flexing of the display triggers a tiny switch beneath it, generating distinct tactile feedback. This avoids a common problem on touchscreens: It can be difficult to distinguish between just moving around the display and initiating an action.

You really feel the difference when typing on the on-screen keyboard. A firm press creates a sensation uncannily like pressing physical buttons, much more so than the vibration generated by the Samsung Instinct's touch keyboard. My initial reaction was that typing was easier and more accurate than on the iPhone—or any other

(FROM TOP) BRAD TRENT; PETER ARKLE

touchscreen keyboard. The keys show up in two configurations: When you hold the Storm horizontally, you get a full keyboard that fills the width of the screen. When you turn it vertically, you get a SureType keyboard, like the one on the BlackBerry Pearl, with two letters sharing most keys and adept software that usually figures out which letter you meant to hit.

The Storm's screen, like the iPhone's, treats touch as more than just another way to move a cursor. Unfortunately, it can't do the iPhone trick of enlarging or shrinking screen contents in response to a finger pinch or stretch. But unlike the iPhone, it does let you edit by cutting and pasting—and you can use a two-finger stretch to select text. You can also use a flick of a finger to scroll pages up or down, which is particularly handy for browsing quickly through a list of e-mails.

This new BlackBerry is hiding an important breakthrough. Developed in partnership with Verizon and Vodafone, the Storm is a true world phone. Here's the problem RIM had to solve: Verizon has a high-speed data network that is widely regarded as the best in the U.S., but its technology is incompatible with that used by carriers in the rest of the world. RIM first bridged the gap last year with the globe-trotting BlackBerry 8830, which runs on both Verizon and Vodafone networks, but that model can handle high-speed data only in North America. The Storm is the first phone to work on high-speed, 3G data services on both kinds of networks.

The Storm fulfills its world phone promise: It works on 3G data services on networks in use in the U.S. and abroad

The Storm's browser is an improvement on previous RIM efforts, largely because Web pages are easier to view in the horizontal format and because you can pull hidden portions of the page into view with a finger. Nice—but it's still no match for the iPhone's browsing finesse. The Storm also lacks Wi-Fi, which iPhone users may miss, though access to worldwide 3G data speeds partly makes up for that. Otherwise, the Storm has all the goodies you expect from a contemporary smartphone, including GPS, decent video and music players, stereo Bluetooth, and a 3.2 megapixel camera. Following Google's Android and Apple, RIM is making it easier to get third-party programs for the Storm and other handsets by setting up BlackBerry Application Centers with carriers.

The Storm is not an iPhone killer, nor it is intended to be. RIM's emphasis is on e-mail and business applications, and its products are designed to be managed by corporate technology departments. Like its predecessors, the new BlackBerry is aimed squarely at mobile executives. But the Storm incorporates much of the fresh thinking that characterizes the consumer-oriented iPhone. The key test will be whether business users who spend a lot of time on their keyboards will be willing to migrate to a touch screen. Based on my brief experience, I think the Storm is an excellent alternative to traditional BlackBerrys. | BW |

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NEW BLACKBERRIES: HOW THEY STACK UP

Research In Motion's handsets all run essentially the same software, including the popular BlackBerry mail service, but there are key differences:

THE PEARL 8100 SERIES

The choice for people who want full BlackBerry functionality in a small package. The Pearl weighs less than 4 ounces and slips easily into a pocket. The tradeoff: the SureType keyboard puts two letters on most keys.

THE CURVE 8300 SERIES

Built around a full Qwerty keyboard it has a slightly larger display than the Pearl's, for more comfortable viewing. The 8800 series and the new Bold offer similar features.

THE STORM

A radical departure from earlier designs, it relies on a touchscreen keyboard with tactile feedback and has a well-designed user interface. It also has the biggest display.

Media 2009: There Will Be Blood

A recession will make a dreadful ad market worse. Even network TV could get whacked

It has been a lousy few years for much of the media, and 2008 has offered no respite. But to quote the hideous '70s band Bachman Turner Overdrive, b-b-b-baby, you just ain't see n-n-nothing yet. ¶ Because on top of the wrenching change affecting essentially every non-online media, here comes a very scary-looking economic downturn.

Think of the recession, says Barclays analyst Anthony DiClemente, "as a vine growing up a wall. Except instead of a healthy vine, like at Wrigley [Field], it's like—'feed me, Seymour'—from *The Little Shop of Horrors*."

Forgive the surfeit of pop-culture jokes. I'm only trying to inject levity into an extremely grim picture. According to ad tracker TNS Media Intelligence, which provided all such figures for this column, automotive and financial services were the No. 1 and No. 3 U.S. ad categories last year. We all know what happened to the latter in recent months. In 2007, Merrill Lynch, Lehman Brothers, Bear Stearns, and Washington Mutual spent $213.1 million on advertising. Even if those companies' new owners spend something to reassure old customers, you're likely looking at a nine-figure sum sucked out of the ad marketplace by those guys alone. And when major carmakers report sales drops of 30%, boffo ad buys do not follow. Ford Motor's ad spending was down over 31% for the first half of this year. Car sales' slide has accelerated since. In case you're wondering, the No. 2 ad category was retail, which is now under severe pressure as consumers spend less.

The consequences of all this contraction are readily apparent when you talk to key media executives. Magazines sell ads long before they appear, and advertisers already are making noises about cutting back in the first half of 2009, says one senior executive in that industry. "Everyone says they are going to keep advertising in a downturn," says another executive, who has run major sales organizations in different media. "But not everyone actually does it. That's just the reality of having to report earnings and profits." And while the wealthiest consumer may remain relatively untouched, those who have recently traded up to high-end products may slam the brakes on such consumption, raising chances that luxury advertisers will be affected, too. Food looks more likely to stay stable. One mordant TV executive puts it this way: "The auto industry is out. And Campbell's Soup is in."

How the dollars flow—or rather don't flow—in any downturn can shape events in ways obscured until much later. As strange as it sounds today, the tech bust that started in 2000 meant that total dollars spent on online display advertising declined 21% between 2001 and 2002. And as strange as it sounds today, many established media organizations used that decline as a rationale for deemphasizing the Web in favor of their traditional businesses—and underinvestment allowed all manner of Web-only startups to outflank them in the one medium that's still growing. While online display ads will still be up in '09, says BMO Capital Markets analyst Leland Westerfield, that growth rate will likely slow. Look for search advertising to hold up, so Google should be hurt the least.

Elsewhere, Barclay's DiClemente suggests, the slowdown's effects will move up a media ladder of sorts, starting with newspapers, magazines, radio, local TV, and then hitting broadcast and—possibly—cable TV. There's a "high probability," he says, that the "advertising malaise spreads to network TV"—the one long-running medium that's held steadiest as others have fallen off.

DiClemente is forecasting a 5.5% pullback in ad spending next year, with only Web and cable TV posting ad upticks. It may be hard to conjure a scenario worse than today's, given what radio, local TV, and newspapers are currently experiencing. This has been a year in which many unthinkable things have happened—newspaper executives, for instance, mulling which days of the week they won't publish. But the coming downturn means that what once was unthinkable ... well, you better start thinking it. |BW|

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For Jon Fine's blog on media and advertising, go to businessweek.com/innovate/FineOnMedia.

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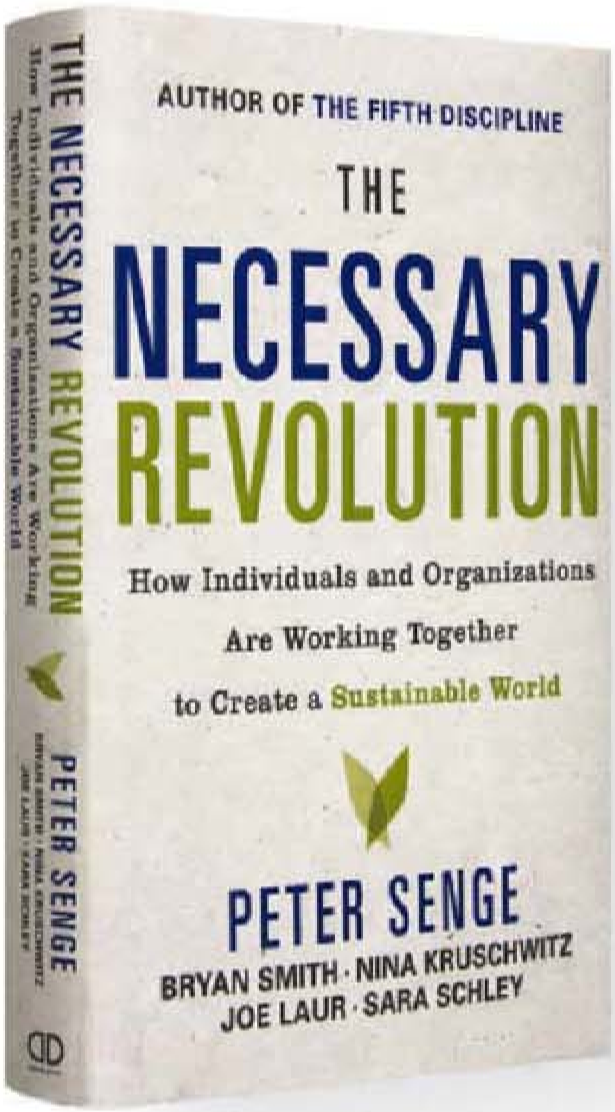

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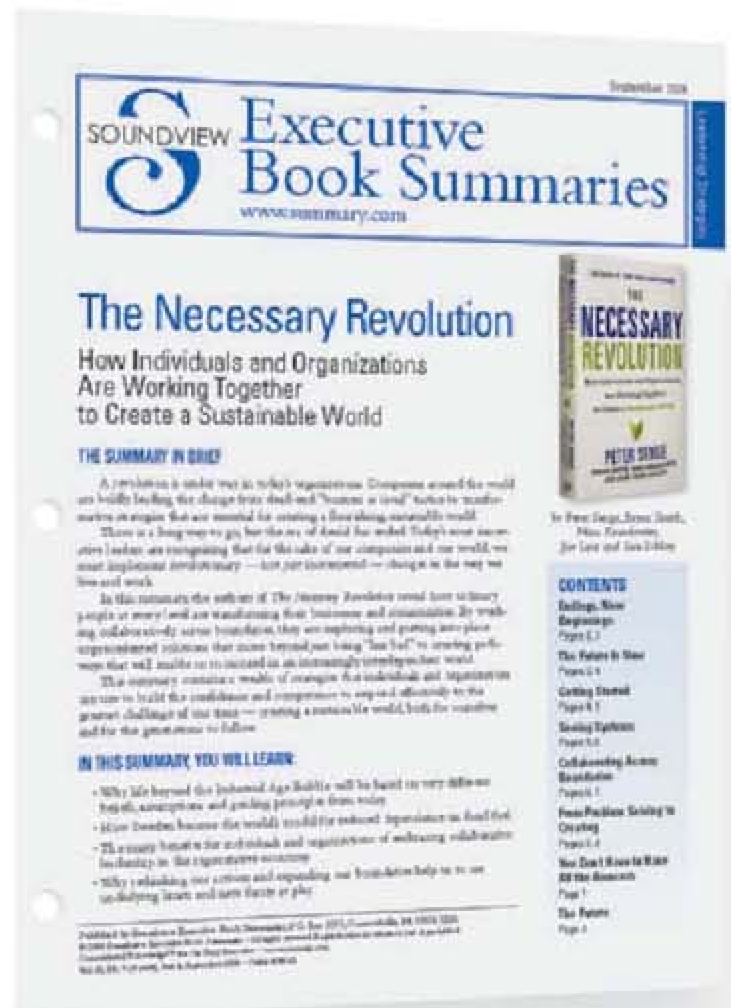

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WALL STREET IN CRISIS
MAIN STREET IN A RAGE

Responding to our Special Report on the financial meltdown ("Wall Street in Crisis," Oct. 6), readers were especially provoked by "Mad as Hell on Main Street." The article reported on the anger and angst of working people in Allentown, Pa. Lots of readers echoed those feelings—taking aim at both the moneymen and the politicians for what they saw as the free-for-all that led to a costly bailout. Some also blamed the unrich and unpowerful: those who bought a home, or big-ticket items, by taking on debt they couldn't possibly pay back. And some expressed compassion. After reading about a town resident who couldn't afford to see an eye doctor, an ophthalmologist practicing nearby wrote to offer to treat her at no charge. –*Susan Berfield*

My suggestion is to create a windfall-profits tax on all management compensation that is more than 100 times the average income of a company employee. Managers who want to make a fortune would then have to bring their employees along for the ride.

Screen name: Richard Carter

How many of the CEOs and those who support and need the bailout to keep their jobs opposed social welfare and safety-net programs for the poor, calling such people lazy and unmotivated?

Screen name: Random

Live within your means, people! [The failure to do so] is how this "crisis" was started in the first place.

Screen name: Gerald

Now that the Wall Street corporate welfare bailout plan (a.k.a. The Big Rip-off) has been passed by Congress, does that mean Treasury Secretary Henry Paulson is the de facto CEO of the U.S. government?

Screen name: Henry

We taxpayers and investors want CEOs and CFOs to pay dearly for their miscalculations, bad decisions, and personal and corporate greed.

Not only do we want to eliminate huge payouts to the Wall Street crowd, we want their homes and yachts confiscated.

Jerry Metzger
DECATUR, ILL.

I do not mind lifting the bucket to help bail the boat. I do mind lifting the bucket to slop the pigs.

Screen name: John

ECONOMICS
RATIONAL SELF-INTEREST IS ALIVE AND WELL

"Flaws in the Selfish-Worker Theory" (Outside Shot, Oct. 6) opines that *homo economicus*—the belief that man is motivated by rational self-interest—is erroneous and harmful to business.

The author says most business decisions are emotional and that people are wired to be altruistic. Yet he recounts a conversation with a hot dog vendor who left teaching to work at Costco. Why? Higher pay, a better environment, and the chance for advancement.

It would appear that *homo economicus* is alive and well and selling hot dogs at Costco.

Glenn Pfeiffer
ORANGE, CALIF.

REGULATION
A NEW RTC? THAT'S YESTERDAY'S SOLUTION

The Resolution Trust Corp. was not created to restructure mortgages and sell off assets over time, as stated in "Time for a New RTC?" (News, Sept. 29).

The RTC liquidated insured savings and loan institutions to pay off depositors' guarantees by the Federal Deposit Insurance Corp. and the Federal Savings and Loan Insurance Corp. Initially run by FDIC professionals who knew how to hold garage sales to liquidate banks, the agency was designed to clean out portfolios quickly with the least loss.

Please don't suggest this blitzkrieg approach as a model for today's more complex and systemic crisis.

Roland Freeman
DALLAS

CORRECTIONS & CLARIFICATIONS
"Ask Your Mother. No, Really—Ask Your Mother" (BTW, Oct. 6), about recently released 2005 data on Americans' donations to family and friends, gave an outdated figure for amounts that must be declared. Donors must now declare such gifts if they are for more than $12,000.


I CHALLENGE YOU
TO HELP US FIND A CURE
FOR OVARIAN CANCER
Halle Berry, Ambassador for the Callaway Golf Foundation and the Entertainment Industry Foundation
Ovarian cancer remains the most deadly of the gynecologic cancers. That's why the Callaway Golf Foundation, the Entertainment Industry Foundation and Halle Berry have joined together to bring awareness and funds to the cause.
Through $2 million in donations to EIF's Women's Cancer Programs, the Callaway Golf Foundation Women's Cancer Initiative, established at leading cancer institutions nationwide, works to fast-track breakthrough treatments and tests to beat this disease. Until there is an early detection test for ovarian cancer, we urge women to become educated about this disease.
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Sweat and Striving on China's Factory Floor

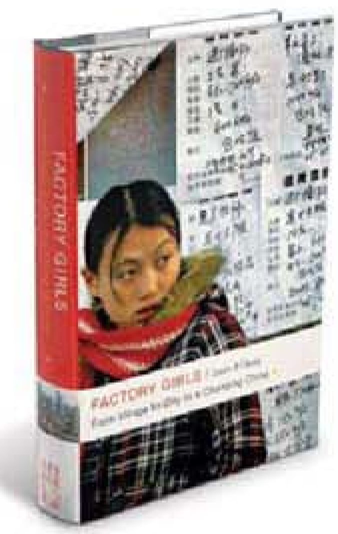
Young women who flee the hinterlands for the cities find exhausting factory work—and social mobility

The rise of China as a manufacturing powerhouse has meant mammoth change for the world: lower prices on everything from sneakers to flat-screen TVs, an exodus of manufacturing jobs from the U.S. and Europe, and Beijing's emergence as a strategic adversary. For the mainland itself, one of the most salient shifts has been the rise of a new class of migrant workers. Over the past 30 years tens of millions of people have moved from China's remote rural provinces to burgeoning coastal cities.

Few of those cities have changed as much as Dongguan. Three decades ago it was little more than a collection of villages in the Pearl River Delta, near Hong Kong. Today it's a metropolis of more than 8 million people, with thousands of factories employing young migrant workers who spend 12 or more hours a day toiling on assembly lines.

Most of those workers are women. Factory owners prefer to hire females, believing that they're less likely to cause trouble than men and that their hands are better suited to detail work. The women—often girls as young as 16 or 17—typically have more to gain from leaving the countryside, where boys are first in line to take over their parents' farm plots.

Factory Girls: From Village to City in a Changing China, by former *Wall Street Journal* correspondent Leslie T. Chang, gives readers a keen sense of where their MP3 players, ski parkas, alarm clocks, boxer shorts, and cell phones come from, and offers a penetrating view into the lives of the people who make them. The Chinese-American Chang—who speaks Mandarin fluently—gained unusual entrée into the migrants' world. She spent weeks at a time in Dongguan, eventually renting an apartment there. She takes readers on a tour of the humble places these young workers inhabit—the hot and smelly dorm rooms they share with as many as a dozen other girls, the noisy factory floors where they spend their days, the karaoke bars and brothels where some end up, and the villages in the hinterland where their parents still live.



Factory Girls: From Village to City in a Changing China
by Leslie T. Chang; Spiegel & Grau; 420 pp.; $26

What these women lack in age and maturity they make up for in ambition. They earn as little as $40 per month but spend much of that on anything that might help them get off the factory floor: English classes, self-help gurus, orthodontia, dating services, and something called "White-Collar Secretarial Skills Special Training Class." This three-month course includes tips such as: "During the noon rest hour, do not lie horizontally on the chair or desk" and "Do not take home leftovers from a buffet." No action, Chang writes, was "so elementary that it didn't require instructions; the class sometimes felt like a crash course for Martians trying to pass as human beings."

Wages are spent on anything to help the women get off the factory floor: English classes, orthodontia, dating services...

In the latter half of the book, Chang accompanies one of her subjects, Min, to her home village. There, the fault lines of the new China come into sharp relief. This is no longer a Confucian society where age is venerated above all else. Although Min's Dongguan job (her fourth in a year) pays only about $100 a month, that's good money in her village. As a result, at 18 she has become an equal partner with her parents, giving them cash and telling them how to spend it. Min scolds her father for smoking, instructs her mother to shut the windows, and suggests they buy a washing machine and pave part of their courtyard with concrete.

The book's weakest moments come in several lengthy chapters that describe the experiences of Chang's own family, both in China and as emigrants. While some of this is interesting, Chang would have done better to save the material for a memoir. Here, it feels like a digression.

Still, Chang creates compelling portraits of her female subjects. At times, the material is bleak—factory labor in southern China can be grueling, and the lives of those who do it can be difficult. But a spirit of optimism shines through in most of the women. They think nothing of exaggerating their qualifications to get a better job and are always ready to jump from one factory to another to earn just a few more dollars per month: One veteran who worked her way up from the assembly line into various low-level management positions has held more than a dozen jobs in 13 years in Dongguan. It's a hard life, to be sure, but also one in which ambitious young people can—and do—constantly reinvent themselves, just as China itself has in recent decades. |BW|

COMPANY INDEX

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names.
Companies listed only in tables are not included.

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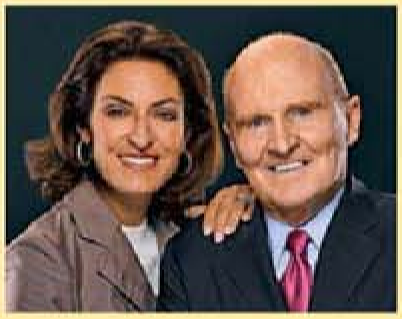

What Change Agents Are Made Of

They've got power, vision, bravery, and support—which may be why they're rare

What kind of person is a change agent?
Anil Kale
PUNE, INDIA

Apparently, any person running for President! Change-Agent-In-Chief is a title claimed by both Barack Obama and John McCain, setting off a veritable firestorm of debate about what kind of person is truly best equipped to shake things up.

Count us in. Not on picking whether Obama or McCain is more likely to transform America; both will, just in very different ways. But count us in on the debate about what kind of person in general—and especially, what kind of person in business—has the qualities to really make change happen. Because, as your question implies, change agents are distinctly different from the pack. In fact, we'd estimate that in most organizations, they comprise no more than 10% of all employees.

But that's getting ahead of the story. Before you can even talk about the characteristics of true change agents, you need to acknowledge the single, critical trait they all share: power.

Seem obvious? Perhaps, but consider this: Most questions we receive about change are from individuals deep within their organizations, burning with desire to improve things and frustrated with the organizational inertia in their way. They hunger to be change agents, but worry they can't be.

They're right. Sure, a transformative idea can percolate from below. And yes, gains are being made with employee engagement, especially through online forums. By and large, however, change is still made by people with some sort of authority. It's driven by managers who have a platform to advocate for a new direction and the ability to hire, promote, and reward those who embrace it.

Change agents in business, in other words, have to be leaders. And yet, as you know, not all leaders are change agents. Which brings us to three other traits that strike us as essential:

First, true change agents see a future no one else does, and that vision won't let them rest. They don't lead change because it "makes sense" or because change is "necessary." They lead change because they believe their organization must get ahead of an approaching "discontinuity" in order to survive and win. In some, such foresight can present as a kind of paranoia. But most real change agents don't get that rap. Typically, they've risen through the ranks because they've seen around corners before, and they're recognized for what they are, serial visionaries.

Second, change agents have the courage to bet their careers. Some leaders will sit around all day talking about the future and how the organization might adjust for it. True change agents are willing to take bold action—and accept the consequences. They know that leading change can be messy, with few clear-cut answers about how events will play out. They understand that pushback accompanies any change initiative and that they will take the brunt of it if things go wrong, termination included. That doesn't stop them, either.

Finally, change agents have something about them that galvanizes teams and turns people on. Perhaps the biggest misconception about change agents is that they're Lone Ranger types. In fact, the most effective change agents have a fervent core of supporters, cultivated through intensity and caring. No doubt, along the way, change agents have learned that whether they deploy fat raises or kicks in the pants, change happens faster and deeper in organizations when people are emotionally engaged—and they have a knack for making that happen. In the end, you know a true change agent when you see their people buy into a change effort not to avoid punishment but to reap its great reward.

True change agents have a track record of seeing around corners, and their visions of the future will not let them rest

And what is that reward? For some change agents, it's the organization's survival. But for many others, it's not nearly as dire. It's growth, and all the good things that come with it: more and better jobs, new products, global expansion, not to mention their by-products—excitement and fun.

Whoever wins the Presidential election must navigate Congress and negotiate change. In business, change agents with authority don't have to wait. They just have to see the future and have the guts and the followers to go for it. | BW |

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Jack and Suzy look forward to your questions. You can e-mail them and view their new Web site at welchway.com. For their PODCAST, go to businessweek.com/search/podcasting.htm.


Dell recommends Windows Vista® Business.