

SPECIAL  
REPORT

ENERGY & THE ELECTION

# BusinessWeek

LAUNCHING YOUR CAREER? DISCOVER 50 COMPANIES WITH

# THE RIGHT STUFF



Employees  
of No. 1  
company  
Ernst & Young  
(incidentally,  
NASA is  
ranked 16th)



## THE BEST PLACES TO LAUNCH A CAREER

Money is tight, but companies are getting imaginative with the perks they use to lure new talent. | **BW** | PAGE 036

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## MCCAIN'S DARING CHOICE

The Republican convention in St. Paul got off to a bumpy start on Sept. 1 as Hurricane Gustav sideswiped New Orleans and forced GOP organizers to reshuffle their schedule. But two days earlier, **Senator John McCain** generated a tempest of his own with his surprise Vice-Presidential pick, **Alaska Governor Sarah Palin**. While the risky choice delighted conservatives who have been leery of McCain, rapid-fire revelations about Palin's record in office and a family contretemps posed a distraction. As of press time on Sept. 3, the convention was back on track, with a minimalist valedictory from **President George W. Bush** and a sharp focus on the central message: that McCain offers the seasoned leadership the nation needs. Will addresses by Palin and McCain win over voters anxious about the economy?

**| BW | PAGE 017** "Facetime: Sarah Palin on the Energy Challenge Facing America"

## GUSTAV'S GLANCING BLOW

Much feared **Hurricane Gustav** didn't live up to its billing when it hit the Gulf Coast over the Labor Day weekend. Risk Management Solutions estimated it caused insured losses of \$4 billion to \$10 billion, vs. \$41 billion for Katrina in 2005. Although Gustav forced a precautionary shutdown of gulf oil installations, the price of crude continued its steep two-month slide, hitting \$108 a barrel on Sept. 3 on the **New York Mercantile Exchange**. Oil's swoon had

some OPEC ministers agitating for a production cut at their Sept. 9 meeting in Vienna.

**| BW | PAGE 021** "A New Deal on Energy?"

## ALCATEL'S NEW DUO

They're being hailed as a dream team, and it will take one to repair this company. On Sept. 1 limping telecom-gear maker **Alcatel-Lucent** named **Ben Verwaayen** as its new CEO and **Philippe Camus** chairman. Verwaayen, a Dutch native, is a longtime telecom vet whose previous gig was a successful turnaround of BT. Camus is a French business savant with nonpareil political skills. Alcatel-Lucent has suffered six consecutive quarters of losses and a 50%-plus slump in its market cap since the French and American companies merged in 2006.

**| BW | "Can New Bosses Fix Alcatel-Lucent?"** [businessweek.com/magazine](http://businessweek.com/magazine)

Verwaayen: He spruced up BT, but Alcatel-Lucent poses a huge challenge



Palin backers at the convention: The choice energized conservatives

## WILL CHROME SHINE?

**Google** just challenged **Microsoft** to go head to head. On Sept. 2 the search phenom released an early version of a Web browser that takes aim not just at the browser market **Microsoft** leads but at the software giant's entire business model. **Google's** browser, dubbed **Chrome**, is intended to speed online applications, from e-mail to games, that are increasingly used as alternatives to **Microsoft's Office** and other PC software. **Chrome**, whose software code will be free for other companies to use, also will provide a foundation for creating richer Web services.

**| BW | PAGE 062** "Google's Broadside Against Microsoft"

## COKE: SWEET ON CHINA

**Coca-Cola's** second-biggest acquisition ever will take place in China. On Sept. 3 the company said it will pay \$2.4 billion for

**\$10 billion**

Top estimate of insurance claims from Hurricane Gustav

**\$41.1 billion**

Insured losses from Hurricane Katrina

Data: Bloomberg Financial Markets



**China Huiyuan Juice Group**, a takeover that would make Coke the largest seller of juice in the country and build its exposure to local consumers. That helps explain the steep premium for a company with \$364 million in sales in 2007. The deal must pass Chinese regulatory muster, a process that could take months.

☞ *"Coke's Juicy China Deal"*  
businessweek.com/magazine

**ABSORBING DRESDNER** Germany, often criticized for having too many banks, will soon have one fewer. Frankfurt-based **Commerzbank** said on Aug. 31 that it will buy money-losing rival **Dresdner Bank**, owned by Munich insurer **Allianz**, for \$14.4 billion. Commerzbank plans to retire the Dresdner name while trimming staff and branches. The

deal should make Commerzbank more profitable if managers can meld the two without too much friction.

☞ *"The Problem Commerzbank-Dresdner Can't Solve"*  
businessweek.com/magazine

#### A SAVIOR FOR LEHMAN?

The Koreans are back in the running. State-owned **Korea Development Bank** on Sept. 2 confirmed it is negotiating with **Lehman Brothers** for a stake in the battered Wall Street bank. But the road is still strewn with obstacles. First there's the matter of price. Then there's the fact that KDB chief **Min Euoo Sung** was hired to get the bank ready for privatization, and Seoul wants any financing of a Lehman deal to come from private-sector partners, not taxpayer money. Also, on Sept. 3 news reports said that

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Milan check-in: Alitalia declared bankruptcy on Aug. 29 as part of a rescue plan

other banks, including HSBC and Bank of Tokyo-Mitsubishi, were pondering investments in Lehman.

▣ "Lehman: Skeptics Doubt a Korean Rescue" [businessweek.com/magazine](http://businessweek.com/magazine)

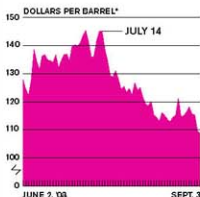
#### JAPAN'S FUKUDA QUILTS

He was unpopular almost from the start, but few expected him to bow out so soon. **Prime Minis-**

**ter Yasuo Fukuda** resigned on Sept. 1 after less than a year in office. The favorite to take over: **Liberal Democratic Party** veteran **Taro Aso**, 67, currently the party's secretary-general. Unlikely to veer far from Fukuda on policy matters, Aso, a *manga* comic fan and former Olympic clay pigeon shooter, is at least more colorful.

▣ "Japan: New Leader, Little Change" [businessweek.com/magazine](http://businessweek.com/magazine)

#### OIL SPILL



\*BASED ON PRICE OF NEAR-MONTH FUTURES CONTRACTS TRADED ON THE NEW YORK MERCANTILE EXCHANGE  
Data: Bloomberg Financial Markets

#### A WINNER IN IRAQ

Quick: What's the first company to clinch a commercial oil contract in Iraq since the 2003 invasion? Nope, it's not **ExxonMobil** or another Western major. Instead, **China National Petroleum Corp.** landed the deal, which the Iraqi Cabinet approved on Sept. 3. State-owned **CNPC** will receive \$3 billion to develop the **Al-Ahdab** field in central Iraq. CNPC was awarded rights to the field back in 1997, but the contract was suspended after **Saddam Hussein** was toppled from power.

▣ *China Daily*

#### RESCUING ALITALIA

The Italian airline made an emergency landing into bankruptcy on Aug. 29, part of a plan to fly free once again. The move clears the way for a group of Italian investors to buy Alitalia's potentially profitable assets for around \$1.5 billion. At least half that sum will have to come from other sources. **Air France-KLM**, **Lufthansa**, and **British Airways** all may take a look but will face a battle with Italian unions if they seek job cuts. The unions killed a deal with Air France-KLM earlier this year.

#### SPIELBERG'S INDIAN ALLY

**Steven Spielberg's** long-awaited creation of his own studio will be announced soon, *BusinessWeek* reported on Sept. 1. The Hollywood heavyweight will recreate **DreamWorks** with funding from India's **Reliance Communications**, which would contribute \$500 million and own 50%, with Spielberg and top lieutenant **Stacey Snider** owning the rest. Reliance would also arrange up to \$750 million in debt to finance six films a year. Spielberg is expected to find a new distributor after an acrimonious three years with **Paramount**.

▣ "Spielberg Nears a Deal with Reliance" [businessweek.com/magazine](http://businessweek.com/magazine)

Spielberg: Sources say he'll work with Reliance to start his own studio



FROM TOP: MATT SPINELLO/BLUMENBERG NEWS; JEAN-PAUL PELUSSIER/REUTERS

sometimes the best moments are between meetings.



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## GET READY FOR A SECOND-HALF SQUEEZE

The U.S. economy has held up remarkably well so far this year despite terrible conditions, but the rest of 2008 will be even tougher as businesses and consumers tighten their belts

The economy's buoyancy in the first half of 2008 has been remarkable. Earlier this year, the thought that growth could average 2.1% annually would have seemed out of touch with the realities of financial market stress, tighter borrowing conditions, falling home values, and shrinking payrolls. Nevertheless, after posting a 0.9% advance in the first quarter, the economy charged ahead at a 3.3% clip in the second quarter, a steep upward revision from the government's original estimate of 1.9%. No, all

this does not mean it's O.K. to breathe easier. Staying afloat in the second half is going to be a much more difficult challenge.

First, the lift from foreign trade, accounting for more than 90% of first-half growth, will be much smaller. Growth in Britain ground to a halt last quarter, the euro zone contracted, as did Japan, and growth elsewhere has slowed a notch. More troubling, outside of foreign trade, the domestic economy shrank in the fourth quarter, stayed almost flat for the next two, and is set to weaken further.

The focus in the second half will be on consumers and jobs. Households contributed modestly to overall growth in the first half, as real (or inflation-adjusted) purchases rose 0.9% and 1.7% annually in the first

and second quarters, respectively. But spending is getting off to an ominously poor start in the third quarter. Monthly declines in both June and July already have put outlays in a deep hole. It would take sizable gains in both August and September to prevent real consumer spending from recording its first quarterly decline since 1991.

Through July, consumers' biggest problem was rising gasoline prices. Despite job losses, the labor markets and the tax rebates gave households enough income to increase their spending at a hefty 6.8% annual rate in the three months through July, up sharply from 3.8% in the previous three months. But that's before accounting for rising prices. From April to July, 56% of the increase in spending went to buy gas and other energy. After taking inflation into account, that 6.8% jump turns into a 0.7% drop.

In the second half, falling gas prices, which by late August were 10% below their July peak, will help to restore some lost buying power. Still, it will take an additional 15% drop to get pump prices back to where they were earlier this year, and by the fourth quarter the spending boost from the tax rebates will be but a memory.

The new problem is income growth. The strong-looking numbers on the overall economy belie progressively slower income gains for both households and businesses. The government

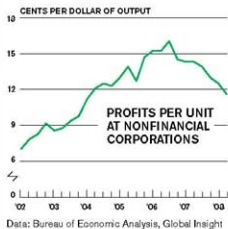
revised down its earlier estimates of wage- and salary income in the first half, and it reported a fourth consecutive quarterly drop in corporate profits.

So far this year, income growth from wages and salaries has slowed to 2.9% annually, from 4.5% during 2007. Even excluding energy, consumer prices are rising faster than that. The pay slowdown reflects losses in jobs and hours worked, which may well intensify in the second half.

That's because businesses are feeling the pressure from the weak domestic economy. The drop in profits reflects not only sagging demand but declining margins. For nonfinancial companies, the profit from each unit of output is falling sharply (chart). Companies are getting hit with the increasing cost of energy and other materials, many of which are imports whose prices are rising rapidly.

This squeeze is likely to crimp both capital spending and consumer demand, as companies try to limit the damage to profitability by postponing projects and cutting more jobs. So far, as strong productivity has helped businesses cope with weak demand and rising costs, consumers have not suffered as badly as in past recessions, when job and income losses were much more severe. The danger in the second half is that companies will step up their cost-cutting, further undermining consumer spending and overall economic growth. **| BW |**

### RISING COSTS ARE CUTTING INTO MARGINS



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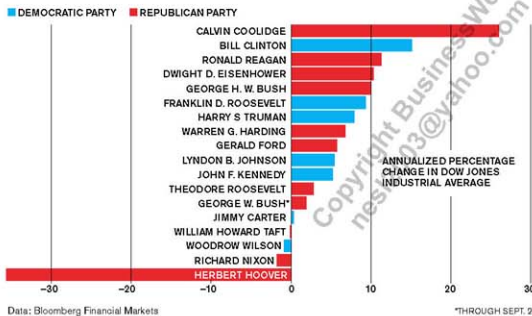
# NUMBERS

## RED VS. BLUE INDICATORS AS ELECTION SEASON HEATS UP

By Tara Kalwarski/Charts by Ray Vella

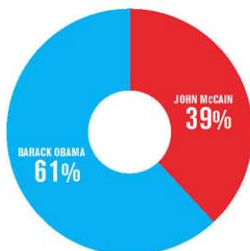
A betting Web site gives Barack Obama the election edge, though John McCain leads in some key states where unemployment has risen since 2004. Stock market performance under previous administrations offers few clues as to how stocks will fare this time.

**Presidential Performance:** Of the Presidents since 1900, neither Republicans nor Democrats have a clear-cut edge in market returns.



**Online Odds:** Investors in an online futures market expect a Democratic win come November.

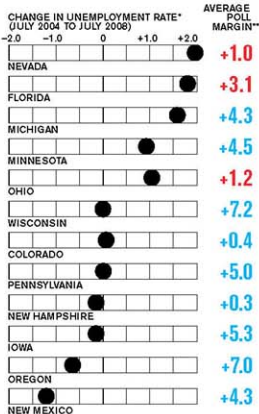
CHANCE OF WINNING THE 2008 ELECTION\*



Data: Intrade

\*AS OF SEPT. 2

**Election Economics:** Swing states with big increases in unemployment are leaning GOP red.



\*PERCENTAGE POINT CHANGE IN SWING STATES THAT WERE WON BY A MARGIN OF 5% OR LESS IN 2004

\*\*AVERAGE OF DATA SUPPLIED BY MAJOR POLLERS INCLUDING RAGUSSEN REPORTS, SURVEY USA AND ONYTIME, IN PERCENTAGE POINTS AS OF SEPT. 2

Data: Bureau of Labor Statistics, Real Clear Politics

## TEAM OBAMA AND TEAM MCCAIN

An early August study of visitors to the official campaign sites for Barack Obama and John McCain revealed the following demographic tastes.



Data: Extrapolated from social and economic profiles of online users by Bill Tancer of Hitwise, a Web tracking company

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## ELECTION ECONOMICS

With the Presidential tickets punched for both parties, the battle for the White House is now in full swing. So exactly what do John McCain and Barack Obama have planned on the economic front? Tune in for details and analysis on both platforms.

## WHERE TO LAUNCH A CAREER

What are the best companies for young college grads now entering the job market? We take an inside look at the top performers in this year's *BusinessWeek* ranking of

employers and break down what it takes to be named No. 1.

## TINY LOANS, BIG IMPACT?

Microlending has succeeded in helping many entrepreneurs and farmers in the developing world. Given the increasing difficulty small businesses now face in getting loans in the U.S., we look at domestic microlending and whether it can work on a larger scale.

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EDITED BY CRISTINA LINDBLAD



## PAPER MONEY

With newspaper advertising and circulation in decline, U.S. demand for newsprint is plunging. Newsprint prices are another matter. Seemingly turning the law of supply and demand on its head, the cost of newsprint has jumped 29% from last summer, to \$735 a ton. And industry leader AbitibiBowater plans to hike prices 11% more

by yearend. Gracia Martore, chief financial officer of Gannett, the nation's biggest newspaper company, calls the increases "unprecedented."

What gives? The double-digit drop in U.S. consumption is being more than offset by increases in Asia and Latin America. Citigroup Global Markets analyst Chip Dillon notes that mills in North America are happy when domestic customers cut orders because it frees up tonnage to ship abroad—where the commodity often fetches even higher prices.

Newspaper readers will notice the marketplace shift. Gannett, publisher of *USA Today*, is moving to skinnier pages, while Tribune is slashing the number of pages in the *Los Angeles Times* and its other dailies by 15% to 20%. As long as demand holds up overseas, though, those cutbacks aren't likely to lower prices. —*Michael Arndt*

## OLDER, SLOWER, FEWER FEATURES... I GOTTA HAVE ONE!

Demand for an electronic gadget usually withers when its next-generation sequel is introduced. Not so for the original iPhone. Apple and its U.S. retail partners ceased selling the older models following the July 11 launch of the iPhone 3G, which offers more features and faster download speeds. Yet a host of small e-tailers are doing brisk business in vintage iPhones. One of those is NextWorth, a Lawrence (Mass.) outfit that buys used iPhones and iPods and resells them. On eBay, where NextWorth Solutions peddles many of its wares, a 16-GB version of the first-generation iPhone goes for about \$600, and an 8-GB model

in good condition commands \$500. That's about \$100 more than those handsets fetched when sold new—and a fat premium over the most expensive current 3G model, which retails for \$300 with a two-year service contract from AT&T.

Why pay more for a, less advanced model? The old phones can be unlocked fairly easily, allowing users to choose a carrier other than AT&T, the exclusive iPhone service provider in the U.S. At present, there is no reliable method to

unlock the 3G version. The older models are also free from many of the connectivity glitches that recently forced

Apple to issue a software update for the iPhone 3G.

To meet demand for the original handsets, online retailers are striking deals with big chains such as Circuit City that allow customers to trade in their old iPhones. "It's been very good for our business," says NextWorth CEO David Chen of the launch of the iPhone 3G.

—*Olga Kharif*



## GONE WITH THE WIND

While windmills have all but shed their reputation as “bird blenders,” bat deaths are emerging as a new concern. Birds are pretty good at avoiding the slow-moving turbines. But why have large numbers of dead bats been found near windmills, many with nary a scratch? After all, the winged mammals are agile navigators that use echolocation to catch insects in midair. An invisible force may be to blame, says a recent article in *Current Biology*. As a turbine blade turns, a pocket of low-pressure air trails in its wake. Bats that fly into this zone can experience a sudden expansion of



the air in their lungs, causing fatal hemorrhaging. (Birds' lungs are less delicate.)

There may be a solution. Bats tend to be more active when wind speeds are low. Turbines could be idled at night or until wind speeds are high enough to ground the bats—the nice, natural way. —Adam Aston

## SALAD DAYS FOR WEB GROCERS

The combination of high gas prices and rising food prices is ringing up robust sales for Web grocers. “One retail channel that is really winning now is online,” says Todd Hale, a senior vice-president at Nielsen. FreshDirect, the largest online grocer in the New York area, won’t release sales figures but reports it is seeing growth in areas such as ready-to-eat meals. “People are traveling less and eating out less,” says Steve Druckman, chief marketing officer at FreshDirect. “They are turning to us for things to eat at home.” To feed that demand, the company has been expanding its “4-minute meals” line of entrees, developed in conjunction with upscale eateries such as Rosa Mexi-

cano and Tabla. FreshDirect also says that customers are returning more frequently, with the interval between orders shrinking by 20% in the last four months. Peapod, an online grocer based in Skokie, Ill. that serves 300,000 customers in seven states, has held the line on delivery charges, despite rising gas prices. Its reward: Sales are up by 15% in the past year. America’s largest online retailer is also making a move into food. Amazon is trying out a service called AmazonFresh in the Seattle area. The trend is gathering steam overseas, too. Researcher IGD estimates that Britain’s online grocery market will more than double, to \$10.2 billion, by 2012. —Aili McConnon



## DIEBOLD: TIME TO LEAVE THE VOTING BOOTH

In an election year, name recognition counts. But Diebold is looking to go incognito this November. The North Canton (Ohio) company changed the name of its voting-machine business to Premier Election Solutions last August, and it has been shopping the unit around. “It doesn’t complement our core business in ATMs and security,” says Diebold spokesman Michael Jacobsen. And while Premier Election Solutions has a 20% to 25% share of the market for digital election systems, last year it contributed less than 2% of its parent’s \$2.9 billion in revenues.

Diebold could also do without the controversy the touchscreen voting machines generate. The latest: a lawsuit filed in August by Ohio’s Secretary of State contending that Premier should pay damages for votes dropped by the machines in the March primary election. (Diebold stresses the votes were later recovered.) With no time to roll out a new system, Ohio says it will be using Premier’s technology in half of its 88 counties come November. Executives at Diebold, who have yet to find a buyer for the unit, will no doubt be praying for a glitch-free election there and in the 33 other states that use its machines. —Aili McConnon

# FACETIME

MARIA BARTIROMO



017



## SARAH PALIN ON THE ENERGY CHALLENGE FACING AMERICA

As *BusinessWeek* went to press on the night of Sept. 3, Alaska Governor Sarah Palin was scheduled to deliver her much-anticipated address to the Republican National Convention in St. Paul. In

exclusive interviews in Alaska on Aug. 25 and then again by phone on Aug. 27—the day before she was announced as Senator John McCain's Vice-Presidential running mate—Palin talked with me about her strong views on energy and the importance of ramping up domestic drilling. Since McCain surprised the world by picking Palin, the 44-year-old governor has been the subject of intense media scrutiny. The pundits point to a lack of national and international experience and wonder whether a former beauty queen with five children is the best choice to be Veep. But as one of the few journalists to spend time with her, I can say her grasp of the

energy challenge facing America—as it relates not only to the economy but also to national security—is the real value she brings to the McCain ticket. Energy is the pocketbook issue of Election 2008, and Palin has a deep understanding of it.

### MARIA BARTIROMO

**If you were in a McCain Administration, what would your economic priorities be?**

### GOVERNOR SARAH PALIN

Well, energy is so entwined with our economy and our security and our future that energy issues are going to be my top priority wherever I am.

### **How important is drilling in Alaska to ease the burden of high oil prices on Americans?**

Not only to ease the high prices of energy in America but also for national security reasons. Drilling in Alaska is going

to be a matter of life and death. In Alaska, we're bursting with billions of barrels of oil that are warehoused underground. We have to pump [this oil] and feed our hungry markets instead of relying on foreign sources of energy.

#### Why have we been unable to do that?

I think some in Congress have misconceptions about what ANWR [the Arctic National Wildlife Refuge] is all about and what Alaska is all about. When you talk about ANWR and the area that needs to be unlocked so that we can explore more and develop these billions of barrels of oil, it's a swath of land that's about 2,000 acres — out of a 20 million-acre plain — that has been set aside. So 2,000 acres, that's like a postage stamp on a football field. And I think a lot of people have assumed that it's some mountainous, green valley — an area so extremely pristine that wildlife would be adversely affected. And that is not true. We have very, very stringent oversight of our resource development. We would even ramp up that oversight if people would understand the importance of unlocking that swath of land.



Pain and McCain  
on the stump in  
Pennsylvania

#### Isn't the big concern that we're going to see an adverse impact on the caribou and other wildlife?

Exactly. [But] look at the Trans-Alaska oil pipeline. For 30 years, billions of barrels of oil have been flowing through that infrastructure into domestic markets, and the caribou population has thrived. No one cares more about Alaska's wildlife and lands and water and air than Alaskans. So when Alaska says: "We're ready, and we're willing, and we're able to develop, and we will make sure that wildlife is not adversely impacted," people have got to give us some credit here and respect our position on this.

#### Why is ANWR so important and how do we know that there's enough oil there to really make a difference?

Because the swath of land in that refuge alone is estimated to hold about 11 billion barrels of oil and 9 trillion cubic feet of natural gas. And those are just the areas that have been

## "WE ARE A NATION AT WAR, AND IN MANY [WAYS] THE REASONS FOR WAR ARE FIGHTS OVER ENERGY SOURCES, WHICH IS NONSENSICAL"

explored. That's about a year and a half worth of U.S. oil consumption and many months of natural gas. It's about a trillion dollars' worth of energy. And again, that's just that sliver of ANWR. So when we hear "Well, maybe there isn't enough," or "Well, it's too late to drill now anyway, we should have done this 5, 10 years ago," hey, I can't argue. I say, yeah, we should have done that years ago. But better start drilling today than wait and continue relying on foreign sources of energy. We are a nation at war and in many [ways] the reasons for war are fights over energy sources, which is nonsensical when you consider that domestically we have the supplies ready to go.

#### How can the Republicans convince the country that four years from now our dependence on foreign oil will have been radically diminished?

Well, we have to prove that Alaska is ready to allow this opportunity for the lands to be unlocked by Congress, and also we have to protect Americans and Alaskans, who own the resources underground, from Big Oil interests that may have in the past taken advantage of the state and been allowed to warehouse reserves. We've got a battle on two fronts — not only with an oil industry that is making mind-boggling profits... [but with a] Congress that has said no to unlocking Alaskan lands. So as soon as we can convince more Americans to put pressure on their congressmen and congresswomen to allow the development and the mutually beneficial partnering with the oil industry... we'll become less dependent on foreign sources.

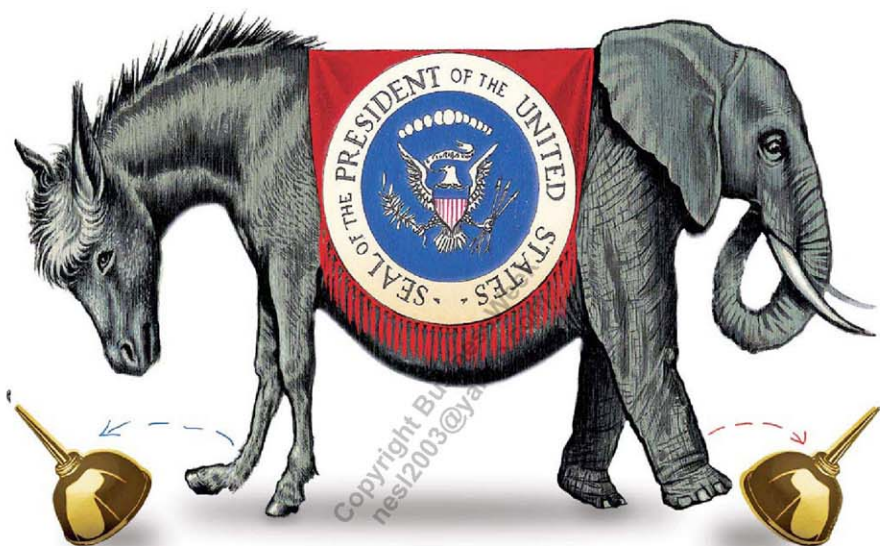
#### Your husband works up on the North Slope, correct?

He does. He works for BP as an oil production operator up in the oil fields. It's a great blue-collar, hourly paid, union job.

#### What does he say about more drilling?

He's very excited not only as a father of five kids who are going to be needing jobs in Alaska but also as an Alaskan native. He and his family have lived here for generations, and he wants to make sure our lands, our wildlife are protected. That's just in his blood. But also, as Alaska's First Dude, he's very concerned about our economy and about Alaska being able to finally be in a position to contribute more to the U.S. instead of taking from the federal government. In our 50 years as a state, we have been too reliant on the federal government to pay our bills. That's nonsense when you consider the wealth we have in our natural resources. Let that land be unlocked, let that [oil] production begin, let Alaska contribute more to the U.S. | **BW**

Maria Bartiromo is the anchor of CNBC's Closing Bell.



# A NEW DEAL ON ENERGY?

**A Senate compromise bill is winning backers from both sides of the aisle—upsetting ideologues in both parties**

By John Carey

**ELECTION  
WATCH**

High energy prices have become a bitterly contested political issue. Republicans are bashing Democrats for standing in the way of drilling for more oil and gas at home, while Democrats retort that their rivals are misleading the American public by saying that such drilling would significantly lower prices. Yet amid the partisan bomb-throwing over America's future energy policy, Washington is actually making a rare effort to forge a compromise.

Over the summer a group of five GOP and five Democratic senators, dubbed the Gang of 10, hammered out a comprehensive energy proposal.



And now, after taking withering heat from both left and right, the idea is gaining support. Three more senators from each party have officially signed on, and the proposal is expected to come up for a vote in the Senate when Congress returns from the current recess. "We've seen the tide gradually turn," says Senator Saxby Chambliss (R-Ga.), who began the effort with a visit in June to Senate colleague Kent Conrad (D-N.D.). "Thank goodness there are some people willing to work across the aisle."

The proposal contains some items on the Republican wish list, such as opening areas of the Outer Continental Shelf to drilling and boosting nuclear power. The Democrats get incentives for wind, solar, and other renewables along with energy efficiency measures—and pay for much of the projected \$84 billion cost by eliminating tax breaks on the oil and gas industry (table). "Some environmentalists have serious problems with it, but it's actually a pretty good deal," says Joseph J. Romm, senior fellow at the Center for American Progress, a Democratic think tank, and a top Energy Dept. official in the Clinton Administration.

As the compromise gains momentum, it is creating dilemmas for both parties. There are plenty of reasons to be against it. For one, John McCain's choice for running mate, Alaska Governor Sarah Palin, is a strong advocate



McCain on a Gulf oil rig. The GOP candidate wants to keep industry tax breaks

on his radio show. In addition, oil and gas companies are leaning heavily on their GOP friends to oppose the plan. "Opening up a very, very minor area [to drilling] and punishing the industry while doing it makes absolutely no sense," says Charles T. Drevna, president of the National Petrochemical & Refiners Assn. For their part, Democrats fear losing support among core constituents if they vote to drill.

On the other hand, members of Congress got an earful during the August recess from voters who want action now. "People

of opening up new areas like the Arctic National Wildlife Refuge to the oil and gas industry (page 17). Polls also show that Republicans are getting a major boost by blaming Democrats for blocking increases in oil and gas supplies, so why would they give up their best

campaign issue? "One man knows we must now drill more in America and rescue our family budgets: ... McCain," says one ad for the GOP Presidential candidate, which accuses Democratic rival Barack Obama of standing in the way.

A compromise with the Democrats would "cut the knees off of Senator McCain," Rush Limbaugh recently charged

and increasingly weary of this endless toxic partisanship. They are hungry for results," says North Dakota's Conrad. And it's not just voters who are frustrated. "The business community has finally come to the point where we think there is blame all around," says Jack N. Gerard, president of the American Chemistry Council, which represents the chemical industry. "There's way too much politics and not enough policy."

Chemical companies are upset that Congress hasn't done anything to increase supplies of natural gas, the industry's feedstock. Wind and solar companies warn that failure to renew their tax credits will devastate their industries. Meanwhile, the narrow escape from Hurricane Gustav, which slammed into the Gulf Coast on Sept. 1, is yet another reminder of the nation's energy vulnerability. With 20% of the country's oil production capacity in the Gulf of Mexico, a catastrophic storm would ratchet up the already sharp pain in America's pocketbooks.

This delicate political calculus is

## BREAKING THE LOGJAM

Fieri rhetoric aside, a bipartisan group of senators has come up with a compromise that could end the political grid. Here's what each party would get—and give up:

### WHAT THEY GET

REPUBLICANS	DEMOCRATS
Expanded (though limited) drilling offshore	Mandates and long-term tax credits for renewable power
Boosts for nuclear power	Repeal of tax breaks for oil and gas industry

### WHAT THEY GIVE UP

REPUBLICANS	DEMOCRATS
Drilling in ANWR and off the West Coast	Windfall profits tax

Data: BusinessWeek



# front-runner

*aka Michael, Verizon team member*

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forcing some in Washington toward compromise. House Speaker Nancy Pelosi (D-Calif.) has agreed to hold a vote on drilling. In early August, Senator John E. Sununu (R-N.H.) won praise from conservatives for not joining the Gang of 10's plan. But he's in a tight race, and New Hampshire has been hit hard by high energy prices. On Aug. 26, Sununu signed on.

#### UPHILL BATTLE

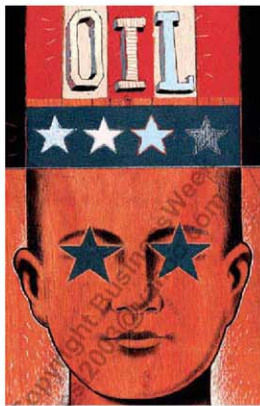
If the plan does come up for a vote in the Senate, it will be a key test for both Presidential contenders, forcing them to go on record on a major issue. McCain has yet to get behind the compromise. Lead economics adviser Douglas J. Holtz-Eakin explains that while McCain supports the notion of a bipartisan approach, he doesn't like the repeal of tax breaks for the oil and gas industry. "Senator McCain believes we don't need to be raising taxes," he says.

In contrast, Obama supports the basic framework, along with the general idea of bipartisan compromise. "If I had to reduce the McCain energy platform to a single word, it would be 'drill,' while ours would be 'diversity,'" explains Jason Grumet, Obama's senior adviser on energy. "It's the difference between serious energy policy and slogans."

The proposal still faces an uphill battle. "Both the Left and the Right are quite unhappy with what we came up with," says Conrad. "It's kind of sad that offering solutions to a serious challenge facing the country is seen as being disloyal to one's own party." Even if the political stars do begin to align, Congress doesn't have much time to broker the deal before the Presidential election, and the Bush Administration vows to veto anything that it believes is a tax increase. Meanwhile, falling oil prices could lessen the urgency of the issue for lawmakers (page 24). But Washington insiders say real progress has been made toward a compromise that breaks the gridlock on energy. "Whether it happens in this Congress or the next one, it is clear we are close to getting something done," says Gerard. **| BW |**  
—With Jane Sassen

# CHEAPER GAS, CALMER DEBATE

With prices down at the pump, it may be easier for Americans to hammer out a wise energy policy



By Peter Coy

ELECTION  
WATCH

More evidence that American voters have the attention span of a hummingbird: The sudden drop in crude oil prices already appears to be reducing the potency of energy policy as a Presidential campaign issue. However, a somewhat lower profile for oil might not be such a bad thing when it comes to progress on crafting a serious energy policy, given that a free-for-all political campaign is hardly the best venue for hammering out an intelligent compromise.

Public concern about energy costs crested in June and July when the price of crude oil hit a record close of \$145 a barrel on the New York Mercantile Exchange. Fully a quarter of Americans cited fuel and oil prices as the biggest problem facing the U.S., 25% in a June

Gallup Poll and 23% in July, up from just 3% in February.

But it didn't take long for lower prices to turn many Americans' attention elsewhere. By Aug. 7-10, when crude oil dipped below \$120 a barrel, just 15% of Gallup's respondents cited fuel prices as Enemy No. 1. That percentage is likely to dip even more in Gallup's September poll, with crude going below \$110. On Sept. 3 crude hit \$108.85 on Nymex, off 25% from its peak. Oil has been dragged down by speculation that slower global economic growth will curb demand.

Environmentalists cheered when Americans began driving less in response to higher fuel prices. By early July, when prices peaked, U.S. gasoline consumption was down 2.5% from the average for the same three-week period over 2005-2007, according to data from the Energy Dept. But again, the fall in prices seems to have induced Americans to break some of their newly made vows to carpool, bike, and telecommute. Gasoline consumption is still depressed, but not as much. It was off just 1.3% for the three weeks through Aug. 21 compared with the 2005-07 average.

Energy "isn't a hair-on-fire issue" anymore, says Frank V. Maisano, a principal at the law firm of Bracewell & Giuliani. That's good, because the energy problem is too complex to be solved with sloganeering, argues Maisano, who represents oil refiners, electric utilities, and wind energy developers.

Of course, complete public neglect of energy issues wouldn't do anything for policy progress, either. But with oil still at historically high levels, there's not much chance of that. **| BW |**

# DETROIT CRASHES THE CONVENTIONS

In Denver and in St. Paul, U.S. automakers make a pointed case for congressional subsidies

By Jane Sasseen

ELECTION WATCH

Detroit's Big Three are desperate for capital. So they've stormed the conventions in Denver and St. Paul—Minneapolis is next.

The automakers have been trying to persuade Congress to speed up funding for \$25 billion in subsidized loans to help retool their old plants. Given the industry's deteriorating state, they now say they need an extra \$25 billion, all to be lent at low rates of 5% or so. Detroit's lobbyists want the funding approved

"We are focusing on it like a laser."

Why the rush? The loan program was first approved by Congress last December as part of the bill requiring automakers to get their fleets up to an average of 35 miles per gallon by 2020. The engineering and plant-retooling costs required to meet those standards



The Big Three say they need \$50 billion to help refurbish old plants

before Congress adjourns on Sept. 30.

Teams flew in from Detroit and Washington, intent on using the conventions' myriad receptions, lunches, parties, and chance meetings to make the case for the loan program to as many members of Congress as possible. The automakers arrived with coordinated strategies and talking points. The United Auto Workers worked their contacts, too. "This issue is white hot," says Ziad S. Ojakli, group vice-president for government and community relations at Ford Motor.

will run to some \$100 billion, according to Greg Martin, General Motors' Washington spokesman. Congress agreed to provide low-cost loans but hasn't approved the funds yet.

Ojakli says Detroit needs fast access to cheap capital or the industry's woes will deepen. He argues that it is just as critical to the U.S. to keep auto manufacturing alive as it is to support the country's financial system with aid to troubled banks. "This is not a bailout. We're looking to lower the cost of capi-

tal so we can meet the [fuel efficiency] mandate put on us and transform our industry faster," he says.

Of course, it has escaped no one's notice that Ohio and Michigan, two states hugely dependent on this sector, are critical swing states in the Presidential election. The automakers have far more leverage now than they will have after Nov. 5. "The road to the White House leads through the auto states," adds Bruce H. Andrews, Ford's vice-president for government relations. "When the candidates are on that road, we want to be holding up the billboards to let them know what's important."

## SMALL WINDOW

Already, Detroit's lobbyists have won the Presidential candidates over. Senator Barack Obama supports expanding the loans to total \$50 billion. Rival Senator John McCain has voiced his support for the original \$25 billion plan. But with some in Congress unconvinced that the auto industry merits help more than others do, the automakers are grabbing every opportunity to spread the word. An industry lobbyist ran into a senator on a Denver street, sat down for a quick coffee, and pitched the loans—an unlikely event in Washington's more formal confines.

Auto execs still fear they'll run out of time before they can win enough support.

Both Congress and the White House are sensitive to the risk that if they backstop the automakers after bailing out the financial sector, they could face more pleas as the weak economy takes its toll on other industries. Winning the funding "is going to be a challenge in this environment," says a longtime lobbyist closely watching the debate from outside the industry. That said, the Big Three hold a trump card: Michigan and Ohio have 37 electoral votes. **IBW**

—With David Welch in Detroit

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# WINNING OHIO MAY HINGE ON FREE TRADE

Even the state's Republicans are worried about John McCain's unvarnished views as jobs dry up

By Theo Francis

ELECTION WATCH

It wasn't a fluke that Senator John McCain introduced his running mate, Alaska Governor Sarah Palin, at a rally in Ohio. In this election cycle, as in past ones, several big industrial states are once again in play. And no Republican Presidential candidate has reached the White House without winning the state. Among Ohio Republicans at the GOP convention in St. Paul, concerns over jobs and trade are running high, and there are signs that the party's free-trade orthodoxy may not play as well as it did in 2004, when President George Bush beat out John Kerry.

Ohio's manufacturing sector is in a world of pain right now. Detroit automakers with facilities there are hurting. Manufacturing jobs in the state have declined 16.8% from 2001 through 2006, says Ned Hill, vice-president for economic development at Cleveland State University. Ohio's overall unemployment rate, meanwhile, hit 7.2% in July, vs. 5.7% nation-

ally. That's the highest level in 15 years.

John McCain has staked out a strong free-trade position in his campaign, touting export growth and calling one U.S. job in five trade-related. But this time around some of Ohio's GOP delegates think government-funded job training (not a traditional GOP priority) will be needed. To be fair, McCain has backed some job-training programs.

Ohio delegate Neal Duiker, a 28-year-old law student from Toledo who

grew up in a blue-collar town southwest of Cleveland, says Ohio's workforce must shift to biotech and other high-skill industries—a change that will depend on education. “Nothing’s going to help people more than giving them better skills,” Duiker says.

## “A LITTLE BIT OF UNEASINESS”

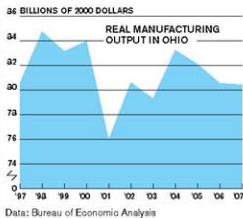
Ian Tanner, a 23-year-old delegate and graduate student in Jefferson, agrees, but he's concerned residents won't have the resources to go back to school without assistance. “People are struggling to get by,” he says. The Ohio legislature recently passed a \$1.57-billion stimulus package with funding for education and job-training.

The rethink in Ohio mirrors broader national trends. Barely a third of Americans—and just 42% of Republicans—said free trade was good for the economy in an April survey by the Pew Research Center for the People & the Press. “What’s going on in Ohio is there’s a little bit of uneasiness among Republicans about free trade,” says Daniel Clifton, a political analyst for Strategas Research Partners, an institutional investment-strategy firm.

McCain and Senator Barack Obama are running neck-and-neck in Ohio, and more than half of likely voters in the state call the economy the top issue of the campaign, an Aug. 24 poll from Quinnipiac University showed. Analysts predict that if McCain can't win Ohio, he's unlikely to take Michigan or Pennsylvania, two other critical manufacturing states. Meantime, Obama's team is trying mightily to connect better with lower-income voters. “The way the Democrats lose Ohio is by losing the working class,” says Paul Neaville, a Democratic campaign consultant.

That's why Democrats, in an ad, have tried to pin blame on the GOP for plans by German-owned shipping company DHL to shut down a plant in Wilmington, Ohio, and lay off some 8,000 people. They say McCain opposed efforts to block DHL's acquisition of the plant in 2003, and his campaign manager had lobbied on DHL's behalf for the deal. McCain has called for an investigation of the planned shutdown, and his campaign disputes the ad's accuracy. The battle for Ohio is joined. **IBW**

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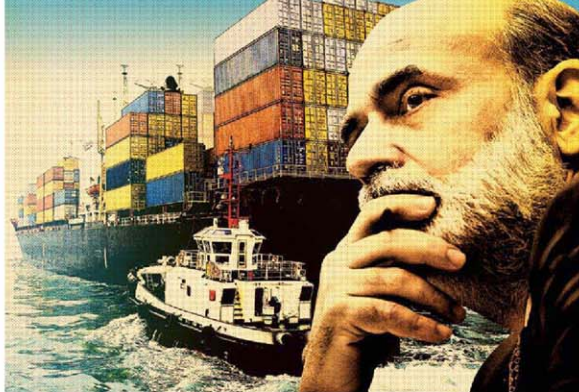
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# BERNANKE'S INFLATION DILEMMA

By some measures, prices are soaring. By others, they're in check. What's a Fed chief to do about rates?

By Michael Mandel



MANDEL ON ECONOMICS

Should we be scared of inflation? Consumer prices are up 5.6% over the past year, the biggest jump since 1991. But oil prices are heading down, and commodities such as corn, aluminum, and copper are well off their peaks.

In fact, the inflation picture is as muddled as it has ever been. For every statistic that shows inflation heading up, there's another that shows inflation on the downswing. Indeed, the most important price in the economy—the average hourly wage—is rising at a snail's pace, as workers get squeezed by higher unemployment.

This lack of clarity puts Fed Chairman Ben Bernanke and the other members of the policy-making Federal Open Market Committee in a bind. When they next meet on Sept. 16, they won't know whether inflation is out-of-control or tame—so they won't know

whether interest rates need to be raised or even lowered.

To see the statistical mishmash, look at the price of gross domestic purchases—that is, what we buy as a nation, including imports (chart). That price is up by 3.5%, compared with 2.6% a year ago.

Worrisome, right? But the inflation figures for gross domestic product—the goods and services we make here and

consume or export abroad—tell a different story. That widely cited rate has fallen from 2.8% a year ago to 2% today, the lowest level since 2002.

## NEW NUMBERS

Or consider producer prices, which are prices received by domestic companies that are the original “producers” of a good or service. On Aug. 19 the Bureau of Labor Statistics announced the Producer Price Index for Finished Goods was up a huge 9.8% over the previous year.

But hidden at the back of the same report are some new numbers the BLS has recently started calculating: overall producer price indexes for the service sector, which makes up a much larger share of the economy than goods.

In particular, the BLS now provides a price index for what it calls traditional services, including industries from banking to legal services to travel agencies to hotels to health care to Web search portals.

Inflation, as measured by the producer price index for traditional services, is running at only 0.4% over the last year, down from 1.8% in December 2007. In other words, there's no sign of inflation being passed through to the service sector so far.

Wage increases, too, are slowing. In the second quarter of 2007 average hourly wages and salaries were rising at a decent 3.9% clip for all private-sector workers. Now the same data show a 2.6% increase, even including top managers. Does that seem like runaway inflation?

Here's one final thing for Bernanke and his crew to think about as they debate interest rates. In the second quarter both the Japanese and Euro-zone economies contracted. If the global slump continues, and U.S. unemployment rises, businesses and workers may end up with little pricing power. Zero inflation, anyone? **BW**

## IS INFLATION UP OR DOWN?



Legend: ● GROSS DOMESTIC PURCHASES (black line), ● GROSS DOMESTIC PRODUCT (pink line)  
Data: Bureau of Economic Analysis

BUSINESSWEEK.COM

For more from Michael Mandel on the Fed's dilemma, watch a video report at [businessweek.com/go/tv/fed](http://businessweek.com/go/tv/fed).



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# A NATION OF YEN-PINCHERS

In Japan, a Prime Minister is out, prices are up—and skinflints like Yuki Wada are minor celebrities

Wada's Web site is a hit with consumers looking to trim costs at home



By Kenji Hall



TOKYO

It made headline news in Japan. On Sept. 1, Prime Minister Yasuo Fukuda resigned after less than a year in office. One big issue: His government failed to fix the economy and rein in inflation.

But for many ordinary Japanese, Fukuda's economic ideas are far less interesting than Yuki Wada's. The 35-year-old homemaker and blogger is what the Japanese call a *setsuyaku no tatsujin*, or master penny-pincher. She recycles bathwater to do her laundry and clean the toilets, tracks how much electricity each appliance uses, and keeps her energy bill low by cutting power to most of her Tokyo home when she goes out. She even saves tangerine peels to polish her shoes.

As inflation in Japan surges, Wada and others like her have become minor stars. With gas running \$7.15 a gallon and prices of everything from instant noodles to beer to soy sauce

climbing, legions of ordinary Japanese have turned to Wada's blog for advice about tightening their purse strings. Inflation will add \$70 a month to average household spending this year, estimates the Japan Research Institute, a private think tank—painful for families getting by on wages that haven't budged much recently. "For many housewives, trying to offset

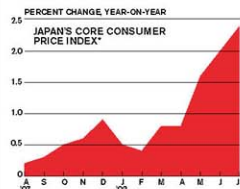
rising prices is like squeezing a dry cloth," says Wada.

The bout of inflation has been a shock for a country that has spent the past decade grappling with deflation. In July core consumer prices were up 2.4% from a year earlier, the biggest jump since 1997, and many Japanese have clamped down on spending. Economists had been counting on inflation to lift corporate profits and property values—and get consumers to open their wallets. That's vital to growth, since private consumption accounts for more than half of gross domestic product. But the opposite has happened as shoppers must shell out more for the basics. "I drive less and ride my bike to supermarkets that are far away if they have lower prices," says Mari Yamaguchi, a 30-year-old homemaker in Tokyo.

While Fukuda didn't say he was stepping down specifically because of Japan's sluggish economy, his government hasn't managed to kick-start growth. "Fukuda failed to send any message about reform," says Masaaki Kanno, chief economist at J.P. Morgan in Tokyo. Some experts say Japan has already slipped into recession, and no one is predicting growth above 1% this year. To keep the economy afloat, Fukuda on Aug. 29 unveiled a \$106 billion stimulus package of tax cuts for low-income households and loans for small and midsize businesses. But because of the massive deficit, only a fraction of the money is likely to materialize, and Fukuda's still-named successor may be forced to revise the plan.

Consumers, meanwhile, remain anxious about inflation—to the benefit of the likes of Wada. She has become a staple of TV talk shows, and she has lectured government staffers on eliminating wasteful spending. Her Web site attracted 180,000 unique visitors in June, up about 50% in the past year. It offers hundreds of tips such as cleaning the fridge to improve performance, putting a brick in the toilet tank to reduce the water used per flush, and polishing the floors with sour milk. "I tell people you shouldn't be thrifty just in response to rising prices," she says. "It should become a daily habit!" | BWI  
—With Ian Rowley in Tokyo

## BIG SQUEEZE



\*EXCLUDING FRESH FOOD  
Data: Ministry of Internal Affairs (Japan)



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# A BETTER WAY TO KEEP THE BOOKS?

The U.S. wants to adopt simpler accounting rules used by other countries. But there could be problems

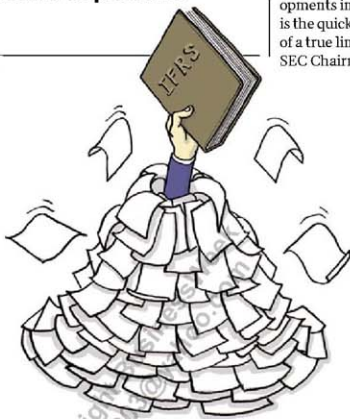
By David Henry

In the latest example of the waning financial leadership of the U.S., the Securities & Exchange Commission wants to dump the country's complex accounting rules in favor of a simpler set of international principles. It's a major step toward a single worldwide standard—a necessity for creating seamless global markets. But adopting the model, which is relatively new and untested, has its own pitfalls.

Junking the U.S. rules, known as generally accepted accounting principles, or GAAP, would have seemed preposterous a decade ago. Back then investors and companies, both in the U.S. and worldwide, viewed GAAP as the gold standard, a transparent system for reporting earnings and other financials. As more European and Asian companies rolled out results in the American style as well as their own, it seemed GAAP would be the top choice among bean counters in an increasingly global marketplace.

But GAAP has gotten so unwieldy that it has all but collapsed under its own weight. According to accounting firm PricewaterhouseCoopers, the U.S. principles span 25,000 pages, compared with 2,500 pages of the International Financial Reporting Standards (IFRS), the ones the SEC is promoting. Navigating that maze, say critics, is costly and confusing. "We've got something that's suited to a different era, that's not global," says Robert H. Herz, chairman of the Financial Accounting Standards Board, the body that oversees GAAP. "I believe it's better to create something new than to patch up something old and outdated."

Assuming certain improvements are made to the international standards,



U.S. public companies would switch over by 2016. The change, which some large outfits could make as early as 2010, would create a common accounting regime, ideally allowing investors to compare a Silicon Valley technology company with one in Germany or Japan. Companies also could better analyze cross-border acquisition

opportunities, says William T. Keevan, a forensic accountant and director at consultant SRA International and at for-profit school DeVry. And it would be a boon for accounting firms, which will guide companies through the new system—not unlike the frenzy of activity for technology firms leading up to Y2K. "One of the more revolutionary developments in the world's capital markets is the quickening pace of acceptance of a true lingua franca for accounting," SEC Chairman Christopher Cox said in late August.

But even if companies are speaking the same language, their financial stories may be decidedly different from each other. That's because, compared with GAAP's detailed requirements, the international principles tend to be broad, giving companies wiggle room. GAAP, for example, contains more than 200 rules for recording revenue, while IFRS only has a couple of requirements. "Basically, you can do almost anything you want," says Herz.

In the end, that can lead to wide variances in profit reporting. A study by Jack T. Ciesielski of *The Analyst's Accounting Observer* found that, among the 137 companies reporting 2006 results under both GAAP and IFRS, 63% showed higher earnings with the international standards. For the median company, profits jumped by 11%.

Even under one system, enforcement and cultural interpretations of the international rules can vary by country. For instance, although British companies rarely employ off-balance-sheet entities, the vehicles crop up elsewhere in Europe. And an estimated 29 countries that use IFRS have added their own exceptions to the rules, defeating the purpose of a global standard. "We may get something that people think is uniform but is not," says Lawrence A. Cunningham, a law professor at George Washington University. "There is a real risk of a veneer of comparability that hides a lot of differences." | BWI

## UNEVEN RESULTS

Profits at 137 companies vary widely under different accounting standards

EARNINGS UNDER INTERNATIONAL RULES\*  
GREATER THAN GAAP

63%

LESS THAN GAAP

34%

EQUAL TO GAAP

3%

\*BASED ON A STUDY OF 137 COMPANIES THAT REPORTED PROFITS IN BOTH GAAP AND IFRS  
Data: *The Analyst's Accounting Observer*



# 2.8%

Average increase in  
2008 entry-level salaries  
by ranked employers

Data: *BusinessWeek*

# THE BEST PLACES TO LAUNCH A CAREER

By Lindsey Gerdes

Photograph  
by Brad Trent

To lure and keep young talent when cash is tight, companies of all stripes are appealing to Gen Yers' ambitions for speedy advancement—and their desire to do good while doing well

As career choices go, the hotel business isn't one that will put new college grads on the path to riches. With few exceptions, new employees can expect an annual salary of less than \$40,000, a figure that has barely budged in recent years. So when Marriott International visited the University of Delaware campus on a recruiting trip, it didn't wave a big wad of cash in front of Claire Pignataro. It didn't have to. It had already hooked her with some-

thing she considered far more valuable: a chance to help run a hotel.

A semester at the Courtyard by Marriott hotel, located on the Delaware campus, is required as part of the school's hospital-

ity program. Pignataro, who was among the first students to work there, took part in virtually every aspect of opening the hotel, from developing marketing materials and designing weekend packages to even checking the legal mumbo jumbo posted in every hotel room. After graduating in 2005 and joining Marriott full-time, she entered a three-month management training program at a full-service hotel in Bridgewater, N.J., that put her through her paces again, including brief stints in the restaurant, food and beverage service, and front office. Knowing Pignataro wanted to be a wedding planner—and not wanting to lose her—Marriott gave her the next best thing: a permanent slot as an event planner at the Bridgewater property. “I was doing

Genevieve  
Dumorne of  
Ernst & Young,  
No. 1 in our  
2008 rankings

bar mitzvahs and weddings—all kinds of social and corporate meetings,” says Pignataro, who is now in corporate sales. “You can do a lot of that within Marriott.”

For companies like Marriott that need to win the talent war without breaking the bank, opportunities such as those offered to Pignataro are rapidly supplanting pay as a way of luring and keeping the best new college graduates in the corporate fold. While the economy has taken its toll on middle management, many companies are continuing to hire entry-level employees—in some cases at a blistering pace. Even those that are hiring fewer employees for entry-level jobs are competing more intensely for the very best. While traditional perks such as pensions and health insurance still have their place, more companies are finding inventive ways to attract, retain, and motivate their youngest employees—using everything from work-from-home programs to faster promotions to financial benefits that kick in a few years down the road. Says Adam Kling, a workplace consultant with RHR International: “They’re using those and other perks to help offset what you’re seeing in your monthly paycheck.” Or more to the point, what you’re not seeing in your monthly paycheck.

No one recognizes the importance of perks more than Ernst & Young, where average salaries haven’t increased substantially in at least three years. The Big Four firm still attracts more than 3,000 highly sought-after accounting students each year with extensive training and mentoring programs, performance bonuses, and the promise of face time with top executives—including an annual trip to Walt Disney World for all U.S.-based interns, where they get to mingle with the powers that be. It’s perks like that, along with a recruiting machine in overdrive and near-certain advancement to a supervisor-level position in just two years, that landed Ernst & Young atop *BusinessWeek*’s third annual Best Places to

Launch a Career ranking this year, unseating rival Deloitte.

The ranking is based on three separate surveys: a *BusinessWeek* poll of career-services directors at U.S. colleges; a survey of 40,000 U.S. college students conducted by Universum USA, a Philadelphia research company; and a *BusinessWeek* poll of the employers themselves. With a greater number of qualified employers participating, we ranked 119 this year, up from 95 in 2007. (The complete list is available online.) The increased competition, along with shifts in sentiment among students and career-services directors, sent several newcomers, including No. 14 Target, No. 17 Boston Consulting Group, and No. 19 Anheuser-Busch, vaulting up the ranking, while several favorites from last year came off their pedestals. Microsoft slipped seven spots, to No. 13; Disney fell 20, to No. 27; and Accenture dropped 39, to No. 47.

While accounting firms again dominate the top of the list, owing to impressive perks and intense demand, one of the most surprising things about this year’s ranking is just how well the investment banks fared. With five banks in the top 50, including Goldman Sachs at No. 4 and J.P. Morgan at No. 10, it was the industry’s best showing since the inaugural ranking in 2006, perhaps in part because the surveys were conducted before the full extent of the turmoil on Wall Street had become apparent. High pay and an otherwise excellent reputation on campuses propelled four of the five banks—including

Boston Consulting’s Albert Chu is spending a year at Save the Children

**\$4,428**

Average 2008 signing bonus for entry-level hires, an increase of 23%.

Data: *BusinessWeek*

## FIFTY EMPLOYERS WITH THE RIGHT STUFF

The ranking is based on three surveys. Career-services directors at U.S. colleges tell us which employers are tops on their list. Those organizations then complete a survey on their pay, benefits, and training programs, which we compare with others in their indus-

tries. Universum USA, a Philadelphia research company, surveys U.S. undergraduates on their five most desirable employers. The employer survey counts for 50% of the final ranking, while the career-services and student surveys contribute 25% each. For a detailed description of the methodology and full list of 119 ranked employers, go to [businessweek.com/go/08/ranking](http://businessweek.com/go/08/ranking).

2008/ 2007 RANK	Employer/Industry <sup>1</sup>	2007 ENTRY- LEVEL HIRES	EMPLOYER SURVEY RANK	CAREER SERVICES SURVEY RANK	STUDENT SURVEY RANK <sup>2</sup>	AVERAGE PAY (000s)	COMMENTS
1 3	Ernst & Young Accounting	3,300	2	7	3	\$50-\$55	Bested Big Four rivals with a rich benefits package and commitment to training.
2 1	Deloitte <sup>3</sup> Accounting	1,996	15	1	6	\$55-\$60	Last year's No. 1 isn't resting on its laurels: This year it boosted paid time off to 43 days.
3 2	PricewaterhouseCoopers Accounting	3,602	23	2	9	\$50-\$55	Two out of three entry-levels this year came from the ranks of former interns.
4 13	Goldman Sachs Investment Banking	898	16	3	5	\$60-\$65	Prepare to work hard: Entry-level hires average 65 hours per week.
5 11	KPMG Accounting	3,219	4	6	14	\$50-\$55	Global internship program puts interns to work helping clients outside the U.S.
6 45	Marriott International Hospitality	275	1	53	25	\$35-\$40	Marriott takes training seriously: Employees attend 10,000 classes each year.
7 5	Google Internet	NA	45	15	1	NA	No one has more buzz on campus: 17% of students want to work there.
8 9	Lockheed Martin Manufacturing	3,894	9	8	17	\$55-\$60	Company will reimburse first-years for educational expenses up to \$15,000.
9 4	IBM Technology	2,150	7	13	19	\$65-\$70	Best three- and five-year retention rates among tech companies in the ranking.
10 17	J.P. Morgan Investment Banking	315	24	9	13	\$60-\$65	Fomer interns who accept full-time offers get an extra \$2,500 signing bonus.
11 10	Teach For America <sup>4</sup> Nonprofit/Government	3,026	35	10	10	\$35-\$40	TFA placed 3,700 recruits in teaching positions this year, a 22% increase over 2007.
12 19	U.S. State Dept. Nonprofit/Government	307	13	50	4	\$50-\$55	Calling all English majors: 56% of entry-levels and 83% of interns are in liberal arts.
13 6	Microsoft Technology	984	21	17	12	\$75 and above	Company picks up the full tab for health plan, which includes dental and vision.
14 -	Target Retailing	3,430	60	4	20	\$45-\$50	Target made 2007-08 entry-level offers at 355 schools, far more than other retailers.
15 15	Abbott Labs Pharmaceuticals	1,474	3	41	55	\$50-\$55	Grads of the Professional Development Program get double-digit raises.
16 -	NASA Nonprofit/Government	84	18	51	8	\$40-\$45	Sex appeal has its pluses: Even with so-so pay, retention is high.
17 -	Boston Consulting <sup>5</sup> Consulting	115	6	42	26	\$65-\$70	Highest average pay and highest average signing bonus in the industry.
18 12	General Electric Manufacturing	1,030	42	12	18	\$55-\$60	GE's \$1 billion training budget includes \$30K targeted to each entry-level hire in their first year.
19 -	Anheuser-Busch Consumer Goods	445	11	52	22	\$55-\$60	This Bud's for you: Employees receive two free cases of beer each month.
20 90	Norfolk Southern Transportation	116	5	59	70	\$45-\$50	Only 20% of interns got job offers in 2007, but all of those who did jumped at the opportunity.
21 16	Merrill Lynch Investment Banking	376	45	19	15	\$55-\$60	So far this year, 80% of entry-level hires have been former interns.
22 38	Verizon Communications Telecommunications	18,865	8	90	45	\$40-\$45	Last year employees volunteered 485,000 hours; company made \$13 million in gifts.
23 27	Northrop Grumman Manufacturing	1,788	19	21	37	\$50-\$55	Industry's best five-year retention rate. Half of top execs have 20-plus years seniority.
24 20	General Mills Consumer Goods	244	12	39	46	\$50-\$55	Six-year Finance Leadership Development Program includes a double-digit raise.
25 14	Boeing Manufacturing	1,072	54	18	16	\$50-\$55	Richest 401(k) match in the industry for new hires—6%.



2008/ 2007 RANK	Employer/Industry <sup>1</sup>	2007 ENTRY- LEVEL HIRES	EMPLOYER SURVEY RANK	CAREER SERVICES SURVEY RANK	STUDENT SURVEY RANK <sup>2</sup>	AVERAGE PAY (000s)	COMMENTS
26 26	Enterprise Rent-A-Car Transportation	8,000	66	5	66	Less than \$35	Performance bonuses go to 20% of entry-level hires, adding \$9,700 to their first-year pay.
27 7	Walt Disney Media/Entertainment	298	101	14	2	\$40-\$45	Only 17% of summer interns got job offers last year, but 97% said yes.
28 47	New York Life Insurance	2,821	10	96	56	\$45-\$50	Look sharp: Dress code calls for proper business attire, unlike most of industry.
29 31	Lehman Brothers Investment Banking	534	45	19	23	\$55-\$60	Bonuses put total entry-level compensation well north of \$100K.
30 28	Raytheon Manufacturing	903	19	39	48	\$60-\$65	Best pay in the industry: 18% of entry-level hires earn more than \$70,000.
31 77	Cisco Systems Technology	673	14	96	39	\$70-\$75	Entry-level hiring doubled in 2007 and is up 20%—so far—in 2008.
32 43	Philip Morris USA Consumer Goods	347	34	26	58	\$55-\$60	Interns present "actionable" ideas to senior managers; 70% get job offers.
33 -	Amazon.com <sup>6</sup> Internet	113	29	66	28	\$75 and above	All entry-level hires got signing bonuses in 2008. The average was \$20,000.
34 84	Northwestern Mutual <sup>7</sup> Insurance	2,165	25	27	70	\$40-\$45	Nearly two out of three top execs have 20-plus years with the company.
35 65	Deutsche Bank Investment Banking	754	36	55	30	\$60-\$65	Entry-level hiring is up 10% over last year, and 43% are former interns.
36 40	Intel Technology	802	37	84	27	\$60-\$65	Nearly 60% of top execs have been on the Intel payroll for 20 years or more.
37 50	CIA Nonprofit/Government	NA	76	35	11	NA	Three out of four interns got job offers last year, and everybody said yes.
38 59	AT&T Telecommunications	3,514	16	72	70	\$55-\$60	Company pays the full cost of health plan, including vision and dental.
39 68	Union Pacific <sup>8</sup> Transportation	190	22	57	70	\$45-\$50	The good news: Signing bonuses this year average \$5K. The bad: Only 10% get them.
40 -	Siemens Technology	1,391	27	96	50	\$50-\$55	Entry-level hiring more than quadrupled last year; nearly half were former interns.
41 54	Liberty Mutual Insurance	761	31	72	56	\$40-\$45	Five-plus weeks of paid time off make up for average pay and benefits.
42 51	Wachovia Financial Services	150	53	32	36	\$55-\$60	Industry's top three-year retention rate—70%—plus an industry-leading 6% 401(k) match.
43 37	Travelers Insurance	155	25	72	70	\$45-\$50	Two out of three first years get performance bonuses. Average: \$6,100.
44 -	Citigroup Financial Services	449	64	24	23	\$60-\$65	Above-average salaries and \$10,000 signing bonuses keep Citi flooded with applicants.
45 62	Nestlé USA Consumer Goods	100	39	59	43	\$45-\$50	Slackers need not apply: Entry-level hires average 50-hour work weeks.
46 -	Whirlpool Consumer Goods	56	28	93	65	\$55-\$60	Average bonuses of \$12,500 make total first-year pay anything but typical.
47 8	Accenture Consulting	1,309	70	16	35	\$55-\$60	Nine out of 10 eligible interns got full-time job offers in 2007.
48 56	Aetna Insurance	80	31	72	70	\$45-\$50	Entry-level hiring is up more than 40% so far this year.
49 89	Kraft Foods Consumer Goods	291	49	38	47	\$50-\$55	Benefits package includes bonuses, tuition reimbursement, and four weeks paid time off.
50 95	MetLife Insurance	2,077	31	96	59	Less than \$35	Performance bonuses go to 90% of entry-levels in first year, and the average is \$4,500.

Note: All data excluding survey ranks are self-reported by employers. Nineteen employers that were ranked last year were not ranked this year; 15 were not selected by the career services directors as top employers for new college graduates and 4 were among the 55 employers that chose not to participate. (1) Comparison group for employer survey. (2) Data supplied by Universum USA. (3) Entry-level hires for fiscal year July 1-June 30; average pay for client service positions only. (4) All data shown for corps members in teaching positions. (5) Average salary for associate consulting positions only. (6) Average salary for engineering positions only; business salaries are \$50,000 to \$55,000. (7) Average salary based on commission rate for entry-level financial representatives; corporate employees earn \$45,000 to \$50,000. (8) Average salary excludes college recruits starting after June 1, 2008.

# -2.0%

Average 2007  
change in entry-  
level hiring

Data: BusinessWeek

beleaguered Lehman Brothers—higher up the ranking.

However, for almost every industry, economic conditions today are far different from those that prevailed last year, when both hiring and salaries were on the rise. Overall, hiring was down 2% in 2007—more than 30 companies had cutbacks—and salaries advanced at a sluggish 2.8% pace,

trailing inflation. Demand for accounting, computer sciences, and engineering majors created a few exceptions to the unfavorable salary picture, explaining why the accounting and tech companies fared as well as they did. But for the most part, 2007 was the worst year for the entry-level job market since 2003.

Amid all the gloom, companies are seeking new ways to find and retain new college grads. For many, the effort starts with campus recruiting, a hugely expensive undertaking that, for companies with high turnover, often has a very poor return.

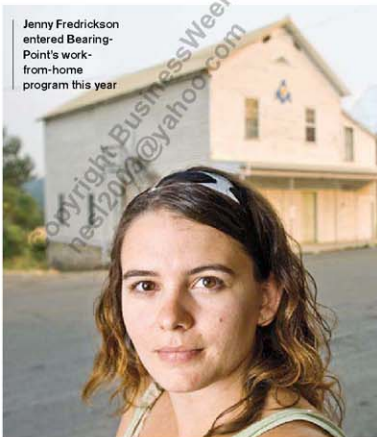
To make the most of their recruiting efforts, many companies are scaling back their scope. In recent years, Philip Morris USA dropped nearly 50 campuses from its program, leaving it with just 34. Philip Morris President Craig A. Johnson says the quality of new hires is up as a result, and that more interns are being converted into full-time hires: 47% in 2007, up from 32% in 2005. PricewaterhouseCoopers pairs a targeted recruiting effort with a beefed-up Web presence that now accounts for 20% of its new hires. Jean Wyer, a PwC partner who was instrumental in developing the strategy, says students who find PwC through the Web site—as opposed to PwC finding them through on-campus recruiting events—have the kind of resourcefulness that results in successful accounting careers. “These are people who are paddling on their own,” she says.

One reason companies like Philip Morris and PricewaterhouseCoopers are succeeding in their recruiting efforts is they’ve done the math. Both companies focus their face-to-face recruiting efforts at schools that have traditionally yielded the most hires, employees with the strongest performance reviews, or those who have stayed with the company the longest, among other metrics. For Philip Morris, one such school is Penn State. As a result of its analysis, the company not only has increased the number of Penn State graduates it hires each year for the last three years but has also broadened its recruiting efforts on the school beyond sales jobs.

A different state school in the Upper Midwest wasn’t so lucky. The school, which Philip Morris would not identify, was recently cut from its recruiting roster when the company dis-

cerned that the number of interns from the school who were hired for full-time jobs was unsatisfactory. Says Ken Garcia, a company spokesman: “The numbers just didn’t pan out.”

For many companies, though, the bigger problem—far bigger than recruiting—is retention. Overall, average five-year retention rates for employers that took part in both the 2007 and 2008 rankings began to slip this year, from 55.4% in 2007 to 52.8% in 2008. This was true for some companies in low-paying industries, including insurance and transportation, and industries with relatively high pay, both of which struggled to hold on to their youngest employees. While the accounting industry made modest improvements, companies in other industries took it on the chin: Abbott Laboratories saw its five-year rate drop from 83% to 72%, and Intel’s fell from 71% to 58%. Claudia Tattaneli, CEO of Universum USA, says falling retention is a function



Jenny Fredrickson entered BearingPoint's work-from-home program this year

## WHAT'S HOT

### ACCOUNTING

Corporate reforms have created huge demand for accountants, and many Big Four firms have ratcheted up hiring and perks.

### TECHNOLOGY

One of the few industries to survive the downturn relatively unscathed, tech offers some of the best pay around for new grads.

### GOVERNMENT

With 586,339 feds retiring by 2016, Uncle Sam wants you. These jobs play to Gen Y's desire to do good; the CIA and NASA have sex appeal.

## WHAT'S NOT

### PHARMA

Biotech is white hot with young scientists, but scandals, bureaucracy, and patent expirations have made Big Pharma outfits far less appealing.

### TELECOM

Cutthroat competition and competing technologies make this industry a big question mark for new grads. Low pay doesn't help.

### TRANSPORTATION

High oil prices wreaked havoc on everything from air carriers to freight delivery companies. The one beneficiary: rail.

of Generation Y's fearless attitude: “They’re not going to stay in a job just because the economy is bad.”

Indeed, one reason high pay alone is no longer enough to guarantee loyalty is that many members of Gen Y, who have been entering the workforce since 2004, have other priorities. For them, issues such as community service and serving the greater good are among the most

## HIGHEST-PAYING INDUSTRIES

2008 ENTRY-LEVEL AVERAGE PAY\*

Investment Banking	\$61,071
Technology	\$59,500
Consulting	56,389
Energy	55,313
Manufacturing	53,125

## LOWEST-PAYING INDUSTRIES

Pharmaceuticals	\$52,500
Financial Services	49,643
Transportation	44,286
Insurance	44,231
Nonprofit/Government	40,000

Note: Since employers report average pay as a range (i.e., \$50,000-\$54,999), analysis is based on midpoint of range (i.e., \$52,250). Industries with pay data from fewer than three companies not listed.  
\*For all employers in each industry reporting average base pay in 2008. Data: BusinessWeek

important, according to the 2008 Univer-sum USA survey of U.S. undergraduates.

That's an inversion of the baby boomer priorities, and particularly good news for nonprofit and government employers. Some of the federal government agencies in our ranking—including the State Dept. and NASA—mesh well with Gen Y priorities, which helps explain why their retention rates are high even though the pay is nothing special. And with more than 60% of the federal workforce eligible for retirement by 2016 (and 37% expected to actually depart), the opportunities for rapid career advancement—another Gen Y priority—are growing. At AmeriCorps, which each year sends an army of 75,000 to serve nonprofit groups in communities across the country, applications from young adults are up 69% in the last four years. David Eisner, the CEO

of AmeriCorps' parent agency, the Corporation for National & Community Service, says AmeriCorps is the beneficiary of a generation intent on giving something back. "It's the kind of demographic shift you almost never see," says Eisner.

But if you can't promise new college grads a chance to save the world—or a seat on the space shuttle—how do you get them to stick around?

A growing number of employers are trying the carrot-and-stick approach. Some companies in recent years have restructured their 401(k) matches and vesting schedules to entice new employees to stay until the richer benefits kick in. Among them: Honeywell International, American International Group, and Blue Cross Blue Shield, where three out of four entry-level hires leave within three years. The health insurer last year ditched its traditional pension plan and created a 401(k) match that starts at 3% and goes as high as 10%, based on age and years of service.

To improve retention, Ernst & Young in 1999 began doubling its match after four years of service to 3%. Today, it boasts the best five-year retention among Big Four firms: 34%. Although that still leaves a lot to be desired, the savings in recruiting and training expenses are significant. Explains Mary A. String-

field, E&Y's head of Americas benefits: "Retention was a key factor for designing that match formula."

As incentives go, ballooning 401(k) benefits are a crude but effective way to keep employees tethered to the company. But for a generation that values flexibility, there's something even more valuable that employers can offer: no tether at all. About a year ago, BearingPoint started a program to permit employees to work from home full-time. Of the consulting company's total workforce of 16,000, some 800 employees ultimately took it up on the offer, including Jenny Fredrickson. Fresh out of college, the 24-year-old marketing analyst started in the company's Redwood (Calif.) office in January 2007 but joined the work-from-home program a year later to be near her family and boyfriend, and to buy a home 360

miles away in tiny Etna, Calif. (pop. 750). Today, she's part of a virtual marketing team with outposts in six states. It's lonely at times, but conference calls and the occasional real-world meeting with her teammates break up the monotony. "There's a lot of flexibility with where you can live," says Fredrickson. "That's one of the main reasons I joined the firm."

It's too soon to determine the success of BearingPoint's work-from-home program. But Tom O'Connor, a senior BearingPoint manager who founded the program, says younger employees like Fredrickson find working remotely more desirable than boomers do, so there's real potential to increase their job satisfaction. "My son is a junior in college," O'Connor says. "The last thing he wants to do is sit in a cubicle all his life."

Programs like BearingPoint's improve retention by making employees more satisfied with the day-to-day aspects of their jobs.

But more targeted interventions are sometimes equally effective. By making a big impression when it matters most—in the first year of employment, when a lot of entry-level hires jump ship, or at the three-year mark, when boredom and frustration often set in—employers can get their young charges over the hump and, with luck, motivated to stay on for many more years. More than a dozen companies in this year's ranking did that with cold, hard cash, increasing the size of performance bonuses awarded to entry-level hires in their first year on the job. KPMG paid out an average of \$4,300, up from \$3,500 in 2007, and to a far larger group of employees—nearly 80% got the bonuses in 2007, up from just 10% in 2006.

At IBM, the average bonus more than doubled, to \$3,500, from \$1,500 in 2007, but fewer employees received them in their first year on the job: 83%, down from 92%. Laurie Friedman, an IBM spokesperson, says the company purposely

52.8%

Average five-year retention rate, down from 55.4% in 2007

Data: BusinessWeek

## LINKS

## For New Grads, a Cold, Cruel World

College graduates might think their hard-earned degrees have bought them a measure of security, but economists Lawrence Mishel and Elise Gould, writing for the Economic Policy Institute, show just how wrong that sort of thinking can be.

Their research shows that this year's crop of grads faces a job market even more inhospitable than that of 2001, at the start of the last recession. Inflation-adjusted hourly wages, health insurance coverage, and pension coverage for twentysomethings have all slipped considerably since then.





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raised the bar for awarding the bonuses to increase the amount and make a bigger impression. Says Friedman: "It's one of the ways IBM attracts the highest-quality applicants in today's competitive tech job market."

Money is all well and good, but nothing says "stay for the long haul" like a promotion. So companies are experimenting with ways to accelerate the process. While many companies award promotions only when a vacancy exists, several, including Philip Morris USA, have shifted to a system that considers employees for new positions whenever they're ready—vacancy or not—thereby removing one of the biggest obstacles to promotion. And Whirlpool is now giving employees a chance to fast-track their careers by offering them opportunities to work on special projects that will enhance their skills, thus

making them eligible for promotions earlier. The projects can be anything from a 60-day stint with HR to six months spent designing a new appliance. The pilot program was started in July, but the company expects it to be popular with young employees and to improve retention, which is already the best among consumer products companies in our ranking. "The more opportunities we can provide our employees to engage in meaningful work and challenging assignments, the more quickly we can help them achieve career goals," says Jeff Beavers, Whirlpool's director of global university relations.

The problem with providing all that meaningful work, however, is that too much can quickly lead to burnout—especially for a generation for whom work-life balance is a priority. This is a major concern in industries such as consulting, where

## THE NEW FAST TRACK

Nowadays, the handpicking begins even before the first job

By Lindsey Gerdes

With accounting grads in demand at Big Four firms, Ernst & Young's interest in Stephanie Goldberg, an accounting major at Pennsylvania State University, was no surprise. She just didn't expect it to come so soon. This spring, she took part in a pre-internship development program, where she was plucked from among the 1,000-plus participants to attend a gratis three-day seminar at Miami University of Ohio for "high-potential" talent. The surprise? When Goldberg first came to E&Y's attention she was a sophomore who hadn't applied for an internship, much less a full-time job.

Companies such as Ernst & Young, Deloitte, and Marriott International, whose futures ride on their ability to attract and retain the Stephanie Goldbergs of the world, are rapidly redefining the fast track. Once, up-and-comers were separated from the herd in the first few years on the job. Now the handpicking begins much earlier—in some cases long before they have the job—followed by an accelerated career path that can take them from newbie to boss in almost no time.

In part, the new fast track is a reten-

tion tool, but it's also a way to identify and develop leaders for companies facing an exodus of boomer veterans. According to Development Dimensions International (DDI), a global HR consultant, nearly 40% of North American employers now have programs to accelerate the careers of high-potentials. "It's like gymnastics," says DDI Vice-President Matt Paese. "At the age of four, scouts aren't looking for strength and speed but psychological and mental toughness and curiosity."

For those whizzes, the new approach provides an opportunity to land an important job at an early age. At the three-day seminar she attended, Goldberg got to hobnob with corporate recruiters and executives while taking part in role-playing exercises and case studies. "It was a really good opportunity to apply everything from school," says Goldberg. "It was an awesome time."

At rival Deloitte, a program launched in 2003 identifies high potentials for a four-day national leadership conference. In 2007, 470 students—some as young as 19—took part in team-building and networking activities with Deloitte brass. The best

get internship or job offers and become senior consultants or auditors in two years.

The jury is still out on how effective the new fast-track programs are for companies.

Since most are brand new, nobody knows if the individuals singled out for special treatment will ultimately end up in the executive ranks or if the programs will trigger a backlash, increasing resentment, disengagement, and turnover among employees not chosen. Marriott, which holds a leadership summit for top interns each summer, doesn't publicly identify high potentials once they're hired for just this reason. "I don't think it does a whole lot of good," says David A. Rodriguez, executive vice-president of global human resources.

Even companies that still develop talent the old-fashioned way—waiting a few years before crowning the next generation of leaders—are making special efforts to identify and nurture their stars. At Philips Electronics, top performers with at least three years at the company are identified by their managers, then shuttled off to an evaluation center for an appraisal of their skills and an exploration of career opportunities.

For the chosen few, there are frequent lunches with CEO Gerard Kleisterlee, even an internal newsletter with updates on their career progress. "Whenever I travel, there are three things on my agenda," he says. "Meeting with local management, seeing a customer, and having lunch with young high potentials." **IBW**

37%

Of North American employers have programs to accelerate careers of high potentials.

Data: Development Dimensions International

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## PERKS: A RUNDOWN

72%

Have flex time

56%

Offer more than two weeks paid time off or vacation in first year

51%

Make workers eligible for promotion on or before 1-year anniversary

25%

Have a 401(k) match of more than 5%

6%

Pay the full cost of health insurance

Among ranked employers Data: BusinessWeek

hours through a formal early-warning system and sounding the alarm when hours approach the burnout zone.

On her first assignment, a stint in Toronto, Allie Melnick averaged 75 hours a week over a three-week period. The 23-year-old associate showed no signs of distress—to hear her describe it, she barely broke a sweat—but the long hours alone triggered BCG's early-warning system. Her project leader pulled her aside to find out how she was handling the pressure, then BCG quickly reorganized the case team, adding staffers and redistributing the workload to give Melnick a break. BCG's response made a big impression on her. "If you're working hard, people notice it," says Melnick. "It was a good feeling."

For many new college grads, however, nothing gets the juices flowing quite like a chance to speak truth to power. Mingling with top executives and having their ideas heard by senior managers is particularly important to Gen Y workers. So providing those opportunities is becoming a priority for many employers. Ernst & Young last year allowed interns aboard the corporate jet for some face time with the chief executive. Mark Kappelman, 24, an Arizona State accounting graduate who chose E&Y over the three other Big Four firms, said senior-level access is typical for new hires as well, and was one of the things that helped him handle all the duties he received in his first few months on the job. Says Kappelman: "It's a very uphill learning curve in the first year. They throw a lot of responsibility at you."

Some companies have even begun taking on the role of surrogate parents to attract and retain a generation often criticized as being far too dependent on mom and dad. Many companies, including Cisco Systems, Unilever, and Ogilvy &

long hours and nonstop travel can take their toll on new grads—driving as many as two-thirds to both inside of five years. To prevent that, Boston Consulting Group takes unusual precautions, monitoring employee

trying to figure out how to live on the salary you're making?" Salinaro says. "These are tools to help you and give you one-on-one interaction, rather than asking your mom and dad."

Perhaps the most unconventional method for holding on to the best entry-level talent is showing them the door—at least temporarily. A number of companies now offer employees a chance to work with nonprofits, a shot at saving the world without sacrificing their jobs. At Verizon Communications, dozens of employees, many of them Gen Yers, are dispatched to K-12 classrooms across the country each year to preach the benefits of studying engineering and computer sciences, disciplines that Verizon relies on to fill its talent pipeline.

At Boston Consulting Group, employees with 18 months at the firm can spend up to a year working at a nonprofit. Employees receive two-thirds of their pay; BCG and the nonprofit split the bill. Albert Chu, 24, who is spending a year with Save the Children, says BCG's philanthropic bent was a big reason he joined the firm after graduating from Duke in 2005—and a big reason he hopes to remain there for years to come. That's a long way from his original plan, which involved using consulting as a more immediate springboard into the nonprofit world. "I had always been looking at this as a short-term thing," says Chu, echoing a common sentiment among new college grads.

Not anymore. | **IBW**

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# OUTSOURCING

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# THE DRUG INDUSTRY

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By Pete Engardio and Arlene Weintraub

Photography by Michael Rubenstein/Redux

**U.S. giants are rushing to partner with Indian and Chinese companies—tapping their brainpower and saving millions of dollars in the search for breakthrough treatments**



## INDIA

In her swank headquarters just blocks from some of Mumbai's worst slums, Swati Piramal is midway through an impassioned pitch about revolutionizing the world of drug discovery. Sanskrit passages of the Bhagavad Gita, the ancient Hindu text that guides her business philosophy, adorn the office walls of her company, Piramal Life Sciences. Its logo is *gyan mudra*, a finger gesture used in yoga meditation resembling the Western sign for "A-O.K."

Journey now to Bangalore. After a crawl through the city's notorious traffic and a bone-rattling ride over a cratered road that washes away with each rainfall, the four-wheel-drive van arrives at the glistening, ocean liner-shaped headquarters of Jubilant Biosys. The laboratories inside are world-class. But when equipment fails, repairs often take a week, scientist Ajith Kamath explains sheepishly. Lunch is Domino's pizza with toppings that include corn, Indian paner cheese, and hot spices. Turns out Jubilant is co-owner of India's Domino's franchise.

At first glance, companies such as Jubilant and Piramal may seem too undeveloped—or perhaps just too culturally

remote—to rub shoulders with the world's top pharmaceutical makers. But judging from all the deals taking shape in India, they may have a critical role to play in the industry's future. In recent months, Western executives have been flocking to India's hastily built science parks, looking for allies in the never-ending quest to develop blockbuster treatments. With little fanfare, they've started a process that could lead to wide-scale outsourcing of drug research to Asia.

Five Western companies have formed drug discovery partnerships with Jubilant, including Eli Lilly, Amgen, and Forest Laboratories. Lilly is also partnering with Piramal, as is Merck. Every month deals are signed with India's elite pharmaceutical companies. The goal is to take promising compounds discovered by the multinationals, run tests to weed out the weakest candidates, and develop some of the others into marketable drugs. Eventually the Indian partners also hope to rack up scientific breakthroughs that lead to entirely new medicines for diseases such as Alzheimer's, cancer, or diabetes.

Looking beyond India's potholed streets and poverty, Western drug executives say they've forged a powerful model for research collaboration. The timing is no accident. Despite

spending billions at home on technologies to turn gene-based discoveries into new medicines, pharmaceutical companies are struggling to come up with revolutionary products that will pull them out of a five-year slump with virtually no revenue growth. In desperation, the drug giants are paying hefty premiums to swallow biotech companies—witness Roche's \$44 billion bid to purchase Genentech in July.

What the multinationals now seek from India is the same combination of brainpower and cost savings that made the subcontinent a leader in software and computer services. Some Western companies are volunteering to share intellectual-property rights on new discoveries and even divvy up the profits. "It's a transformation of the R&D enterprise," says Robert W. Armstrong, Lilly's vice-president for global external research. "We have to think in a totally different mode."

The rush east, where five PhD chemists can be had for the cost of one in the West, entails risks. At a time when Pfizer, AstraZeneca, and others are slashing U.S. R&D jobs by the thousands, the buildup in Asia is bound to set off alarms that America is sacrificing another key industry through radical outsourcing. But if the strategy works, it could save the drug industry billions of dollars, bring down the prices of new drugs, and accelerate breakthroughs.

The impact of research outsourcing will be amplified greatly as China, with an even bigger pool of biochemists, expands its role. Lilly, Sanofi-Aventis, and others have already struck up partnerships there. China has "extraordinary potential," says Eric J. Topol, former chief cardiologist at the Cleveland Clinic, who advises HUYA Bioscience, a drug licensing venture based in San Diego. China could yield "a flood of potentially important therapies. It's just a matter of time" (page 52).

The East-West research collaborations are new and have yet to produce a single drug. But many Western executives say they're stunned at how quickly the Indian industry is achieving targets set by the joint ventures. Just a few decades ago, India was a outcast in the pharma business. To the outrage of Western multinationals, New Delhi in the 1970s declared it would cease honoring patents on pharmaceuticals. Thousands of generic drugmakers then sprouted up, reverse-engineering Western medicines and distributing them in India and in other developing

countries. The Indian executives argued they were providing a social service, selling antibiotics, say, for a fraction of what Western patent holders demanded. In the 1990s, Indian generics makers Cipla and Ranbaxy Laboratories started selling AIDS cocktails in India and Africa at just \$1 per dose.

Even Indian drug executives, however, realized the knockoff business is a dead end. Almost all of India's top pharma managers say their cherished goal is to stamp out diseases in the Third World. That will require breakthrough medicines, not factories full of pirated generics. They also recognize the only way to jump-start a modern industry is through collaboration with Western drug companies. So in 2003, New Delhi reversed course and said it would protect the rights of foreign patent holders.

The first collaborations involved fairly simple lab work, mainly to save on labor costs. The Indians wanted more responsibility. But while India had plenty of good chemists who could crank out drug knockoffs, it lacked biologists with the deep knowledge and experience to develop novel compounds.

When Sandeep Gupta, a former Forest Labs research director, toured Indian pharma companies in 2006, he urged the CEOs to import talent fast. "I told them unless they expanded their biology capability, I couldn't [make deals] with them," he says. Soon, local drugmakers were snatching up thousands of Indian-born biologists who had trained abroad and offering them leadership opportunities. Jubilant nabbed Kamath, a 14-year veteran of Pfizer, to head its nascent structural biology department, and V.N. Balaji, who had worked at Monsanto and Allergan, as chief scientific officer. The company quickly expanded its team of 50 chemists and drug discovery experts to an army of 700. "If you told me five years ago this would all be here today, I would have replied 'no way,'" Kamath says.

Over time, the partnerships evolved into co-development



Piramal's Mumbai-based company has ventures with Merck and Eli Lilly



## GO EAST, DRUGMAKERS

### MERCK

It teamed up with its former foe in India, generic drugmaker Ranbaxy, to develop antibiotics. Merck is also working with India's Advinus on metabolic diseases such as diabetes.

### FOREST LABS

In India, it is working with Jubilant and Aurigene to find novel treatments for obesity and other metabolic diseases. Aurigene could get as much as \$60 million if the deal yields a drug.



Kamath and Balaji joined Jubilant Biosys after long stints with U.S. companies

arrangements. The turning point was a 2003 collaboration between GlaxoSmithKline and Ranbaxy. Glaxo handed over novel compounds thought to have medicinal value and offered its Indian partner a share of the intellectual-property rights and millions in royalties if it could help develop a commercial drug. Western drug companies have announced about \$400 million worth of such deals so far, but the total value is probably much higher. BristolMyersSquibb, for example, has expanded a research partnership with Bangalore-based Biocon. It includes a state-of-the-art research facility that will house 400 scientists—the cost of which has not been announced.

For the Western partners, the first objective in these alliances is to cut costs. In the U.S., specialized research outsourcing firms will charge a drug company \$250,000 and up for the full-

time services of a PhD chemist. With an Indian partner, the same work can be done for roughly one-fifth the cost. But what Western companies long for, more than anything, is to replenish their drug development pipelines. It can cost as much as \$100 million to nurture a potential drug from a germ of an idea to the point where it is tested in people. After all that, the odds of any drug winning Food & Drug Administration approval are just 1 in 8. By conducting many experiments in low-cost Asia, the drug companies believe they can run more projects while keeping R&D budgets flat. In other words, they gain “more shots on goal”—a phrase that gets repeated so frequently you’d think it’s a quote from a sacred Indian text.

The other catchphrase that comes up constantly is “fail fast, fail cheap.” When scientists study potential drugs in the test tube and then in animals, they detect many problems that ultimately cause drugs to fail, such as toxic side effects or inadequate absorption in the body. Killing projects at that stage is essential, because most of the cost to develop a drug—a few hundred million dollars, typically—comes later, during human clinical trials. In effect, Western drugmakers

An A-list of Western multinationals is looking to Asian joint ventures for cures for infectious diseases, diabetes, brain ailments, and much more

#### ELI LILLY

Its multiple partnerships in India include two deals with Suveto to study brain diseases and one with Piramal to develop drugs to treat metabolic diseases.

#### JOHNSON & JOHNSON

It formed a partnership with Aurigene in India on an undisclosed project and is sending its local people in India and China to scout for more opportunities.

#### SANOFI-AVENTIS

The drugmaker teamed up with the Chinese Academy of Medical Sciences to study cancer treatments and plans to form more such partnerships in China this year.