

SOVEREIGN

FUNDS:

TWICE SHY

By Emily Thornton and Stanley Reed

Their appetite for investments in Wall Street's big banks is waning fast

WALL STREET IN CRISIS

When three officials of Lehman Brothers parachuted into Seoul in early June seeking a cash injection from South Korea's \$22 billion sovereign wealth fund, they were quickly shown the door. After buying 5% of Merrill Lynch for \$2 billion in January, Korea Investment Corp. had a pretty good idea what was happening on Wall Street. So just a few hours after a quick tea with the Lehman team, the fund's managers said no without even taking the time to look through the bank's books. "Lehman's profile is similar to that of Merrill, and we concluded it would be better for us to avoid concentrating our exposure to Wall Street banks," says Kim Ryoung, a KIC director.

It was another moment in the cooling romance between the world's giant sovereign funds and financial firms. Last year big sovereign funds—which invest government money in private companies—plowed tens of billions of dollars into the likes of Citigroup, UBS, and Merrill. Today, though, the funds are no longer riding to the rescue. "Everybody is adopting a

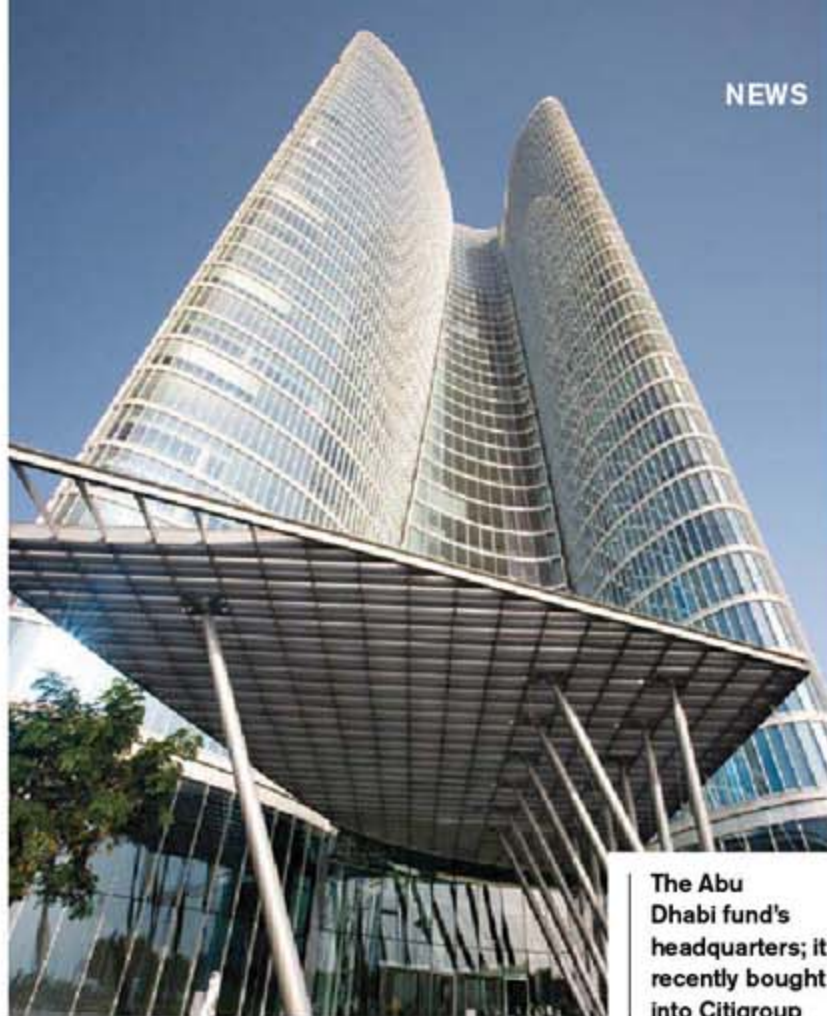
FINANCIAL FOLLY?

Sovereign funds have plowed nearly \$60 billion into banks and brokerages recently. The biggest deals:

	BANK	SOVEREIGN FUND
\$12.5 billion*	Citigroup	Singapore (GIC), Kuwait
11.5	UBS	Singapore (GIC), Saudi Arabia
7.5	Citigroup	Abu Dhabi
6.2*	Merrill Lynch	Singapore (Temasek)
5.4	Merrill Lynch	Kuwait, Korea

*Includes money from private investors

Note: Singapore has two funds: Temasek & Government of Singapore Investment Corp.
Data: Dealogic, McKinsey



The Abu Dhabi fund's headquarters; it recently bought into Citigroup

wait-and-see attitude," says Tarek Abdel-Meguid, a partner at New York investment firm Perella Weinberg who works closely with sovereign funds.

One big reason is that their investments in banks and brokerages haven't turned out to be such a great deal. Such funds invested nearly \$60 billion in the financial industry over the past 18 months. By June, the market value of their shares had declined by \$14 billion, McKinsey & Co. estimates. Since then, those stocks have continued to slide (though some of the funds have deals that protect them against falling prices). "It is a bit of a shocking situation," says a top executive at a Persian Gulf sovereign fund. Another turnoff: a wave of criticism, both at home and in the U.S., of their growing involvement in Western banks. "The way most of the funds have been treated has created a very negative attitude about getting involved," says Rachid M. Rachid, Egypt's Minister of Trade & Industry. "They are happy not to be part of this."

With Wall Street in flux, the sovereign funds are also faced with the likelihood of owning big chunks of companies they didn't plan to invest in. Korea's sovereign fund, Singapore's Temasek Holdings, and the Kuwait Investment Authority, for instance, all own stakes in Merrill. Now, the three must convert those shares into stakes in Bank of America.

When sovereign funds swarmed over Wall Street last year, many thought they were making investments close to the bottom of the cycle. Now "there is no light at the end of the tunnel," says a Middle Eastern sovereign fund manager. Lehman's bankruptcy and Merrill Lynch's shotgun marriage with Bank of America signal more downside. "In today's turmoil, making multibillion-dollar investments is beyond risky," says Arif M. Naqvi, chief executive officer of Dubai-based Abraaj Capital, a private equity firm. "It is almost like rolling the dice." | **BW** |

—With Moon Ihwan in Seoul

RUSSIAN STOCKS IN FREE FALL

By Jason Bush, Moscow

Foreign and local investors bolt as crude prices come down and interest in the oil-driven economy diminishes

WALL STREET IN CRISIS

The ruble is tumbling, capital is fleeing the country by the suitcase-load, interest rates are soaring, and stocks are collapsing. Sound like Moscow, 1998? Sure, but it's also Moscow, 2008. A decade after Russia's financial crash, the country's markets are again in turmoil. On Sept. 16, after digesting the news of Lehman Brothers' failure, Moscow shares went into a tailspin. The biggest bourse, Micex, fell 17.5%, its largest one-day loss since 1998, while the rival RTS exchange was down 11.5%. "Stop Falling!" the daily *Vedomosti* pleaded in a Page One headline.

That plea went unheeded as the slide continued on Sept. 17, spurring regulators to suspend trading on both exchanges. The Russian central bank pumped a record \$17 billion into the financial system, while the Finance Ministry said it would provide \$45 billion in short-term loans to banks. That followed a \$20 billion injection one day earlier, which failed to keep overnight bank rates from jumping 2.41 percentage points, to a record 10.83%.

The collapse has created a vicious circle. Many investors had taken out loans to buy stocks in a multiyear bull market. As prices fell, they suddenly found themselves forced to put up extra collateral, and the only way to raise cash in a hurry was to sell more stock. "Once things start, you get automatic mechanisms that kick in," says Richard Hainsworth, general director of the RusRating credit rating agency in Moscow. "People don't know where it's going to stop." Since July, Russian shares have lost nearly two-thirds of their value.

The sudden panic shows how apparently unrelated events can combine to create a powerful downdraft. The first shock came in late July, after Russian Prime Minister Vladimir

Putin accused steelmaker Mechel of price-fixing. A bitter shareholder dispute at Anglo-Russian oil company TNK-BP added to market nerves. Though both conflicts appear to have been resolved more or less amicably, traders soon had another crisis on their minds: Russia's invasion of Georgia in August.

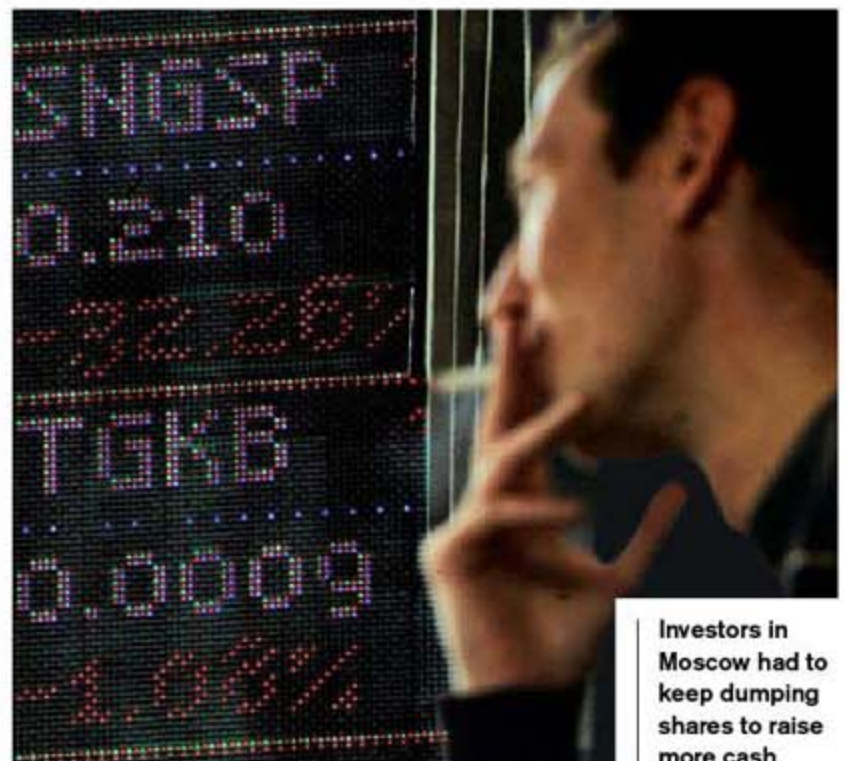
Fearing a new Cold War, foreigners dumped the ruble, Russian bonds, and stocks. By early September, locals anxious about a further slide in the currency began piling out of ruble assets and into dollars and euros. "The time when the dollar was considered a much safer investment wasn't that long ago, so many people just had a reflex reaction," says Evgeny Nadorshin, chief economist at Trust Investment Bank in Moscow.

KREMLIN ASSISTANCE

Some seasoned investors say the troubles are overblown. "The world has gone mad," says Eric Kraus, who runs the Nikitsky Russia/CIS Opportunities Fund. The market implosion, he says, "is a negative bubble...completely disconnected from economic fundamentals." Second-quarter growth in gross domestic product reached 7.5%, down only marginally from the first quarter, and with oil prices strong, Russia recorded a \$260 billion trade surplus in the first half of the year.

Help may come from the Kremlin. For months, business leaders have pushed for tax cuts to boost corporate profits. That would be a boon for the hard-pressed oil sector, which has curtailed production because of a crippling tax burden. While the government has been squabbling over the extent of any relief, the stock market crash may break the logjam.

But lower taxes wouldn't solve the underlying problems in Russia's financial system. Long-term savings in Russia are close to nonexistent—leaving companies largely dependent on foreign funding. And with oil prices off 35% since July, the global appetite for investing in such an energy-driven economy could fall even further. "If foreign investors don't buy debt and equity, Russian companies will find it harder to raise capital," says Kingsmill Bond, chief strategist at investment bank Troika Dialog. "That is the Achilles' heel of this market." **IBW**



Investors in Moscow had to keep dumping shares to raise more cash

ARTYEM KOROTAYEV/AFP PHOTO/GETTY

A CHANCE TO FIND BALANCE

By Michael Mandel

A focus on education, infrastructure, and R&D could spur new growth

WALL STREET IN CRISIS

Are we safe yet?

In the short term, no. More financial institutions will collapse, in the U.S. and elsewhere. Many workers will lose their jobs. Consumers will have to cut back on their spending, in some cases deeply. And the government is going to have to lay out big bucks to keep the economy and financial markets afloat.

But for the medium term—say, two or three years down the road—economic and financial prospects look considerably brighter. The long housing and consumption booms sucked resources out of more productive sectors. If companies, investors, and workers don't get completely spooked, this crisis can evolve into an opportunity rather than an unmitigated disaster.

For now the current crisis is going to get deeper. How deep? The underlying problem is over-borrowing by financial institutions and households, which have greatly increased their debt over the past 10 years (chart). So the turmoil won't end until these sectors pare down their debt.

A rough calculation suggests that households have borrowed \$2 trillion to \$3 trillion more than they should have, based on historical patterns. Much of that excess debt—taken for homes, cars, other consumer goods—will not be paid back, because many borrowers don't have enough income. This overhang of bad debt is what brought down

WHO IS VULNERABLE

INCREASE IN OUTSTANDING DEBT,
ADJUSTED FOR INFLATION (1998Q1-2008Q1)

Financial sector	128%
Households	97%
Business	65%
State and local government	61%
Federal government	9%

Data: Federal Reserve



Bear Stearns, Lehman Brothers, and AIG, and it's likely to hit several other big financial institutions before the crisis is over.

As bad loans get written off by the financial sector, the debt burden on households is lessened but not eliminated. American consumers will have to tighten their belts to pay back whatever excess debt is left. That means reductions in consumer spending, leading to widespread job cuts.

So where's the bright spot? The U.S. has had a distorted economy since 2000. Money flowed into housing and consumer goods, while business and infrastructure investment got short shrift. In other words, productive assets had to go to the back of the line.



MANDEL ON
ECONOMICS

Now that emphasis could change. Businesses and state and local governments still have room to borrow because they didn't leverage up as much as households and financial institutions did. The resulting retreat in housing and consumption will leave more resources to devote to building real wealth for the future, including spending on education and research and development.

This crisis could become a chance to reevaluate our priorities as a country. Rather than stressing homeownership and consumption, we should focus on investment and innovation, which have a bigger long-term payoff.

This upbeat view, of course, depends on whether the government has the will and the ability to keep the financial system from collapsing completely. One piece of good news: Adjusted for inflation, the federal government did not add much debt over the past decade, so it has plenty of borrowing power. The Federal Reserve, too, still has ammo left (page 38).

In many ways this crisis is like a forest fire. If left unchecked, a fire can devastate thousands of acres. But it can also clear out old brush and set the stage for a new round of growth. With any luck, that's where we will end up. | BW |

BEST GLOBAL BRANDS

By Burt Helm

Illustration by Harry Campbell

Gutsy marketers spend into the teeth of a recession. Several of *BusinessWeek's* 100 Best Global Brands are doing exactly that

Every time a recession threatens, executives glare at the balance sheet and wonder aloud about one particular expense: brand building. Trimming the marketing budget can seem eminently sensible. After all, doing so won't hurt product quality or, most likely, next week's sales. As the business climate has worsened in recent months, a number of blue-chip companies have announced plans to cut marketing costs, including Coca-Cola and Visa. U.S. automakers have already done so. As have several hard-hit banks. | Then there are the other guys—companies that refuse to let tough times distract them from their long-

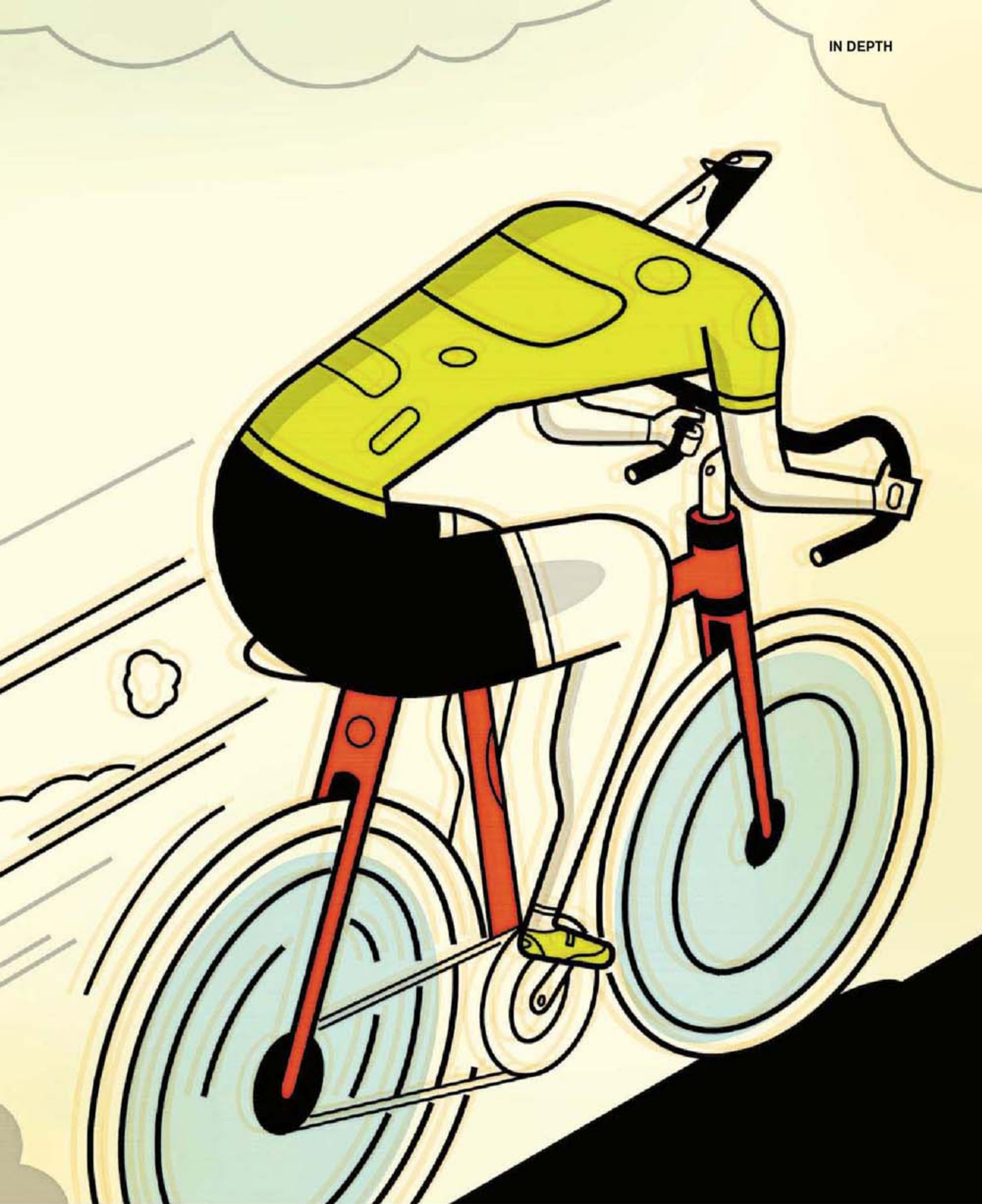
term brand-building efforts. Sometimes they see a recession as the perfect moment to get a leg up on a weakened rival. Others strengthen their brands to ward off discount competitors. Still others feel they have a knockout new product that requires support. In *BusinessWeek's* annual ranking of the 100 Best Global Brands, several are keeping their U.S. marketing budgets steady, as a percentage of revenue. Among them are

American Express (No. 15) and Diageo (owner of Smirnoff, No. 89). Others are going further. Louis Vuitton (No. 16), Kellogg's (No. 39), Accenture (No. 47), and Kleenex (No. 74) are all aggressively boosting their marketing expenditures as a percentage of expected sales. "There's always pressure to cut," says Jez Frampton, chief executive of Interbrand, a brand consultancy, which for

the eighth year crunched the numbers for our ranking (page 56) and typically advises clients to spend harder during a recession. Consumers, he argues, "are more conscious they're spending their hard-earned money. It increases what they expect they should receive in return."

History shows that a recession can be an auspicious time to invest in a brand. Some of the most successful brand cam-





paings in the past six decades began during economically challenged years. Of *Advertising Age's* "Top 100 Ad Campaigns of the 20th Century," fully a quarter that got under way after 1945 did so during recession years. Several of the most effective were launched in the ugly years of 1974 and 1975, when consumer spending tanked and gas and commodity prices soared (sound familiar?). In 1974, for example, BMW introduced itself as "The Ultimate Driving Machine," a slogan that endures to this day and helped turn the German automaker from a niche sports sedan in the minds of American drivers into a top luxury auto brand known for superior engineering in everything from roadsters to SUVs. "I love bad times," says Martin Puris, the adman who came up with the slogan. "In good times, people are less apt to try new things. In bad times, they have to start to do things better."

Still, it requires a gutsy chief marketing officer to ask the boss to invest in something as squishy as brand-building when the economy softens. CEOs typically set marketing budgets as a percentage of expected future revenue, a number that often shrinks in a downturn. Results-hungry investors, meanwhile, want marketing money spent on activities that ring cash registers now, like promotions or coupons. Even the competition can create temptations to play it safe. Advertisers closely monitor how often their ads appear vs. the competition's. They call this their "share of voice." A pullback by a timid rival

THE BIG WINNERS

Amazon.com was the surprise mover this year

BRAND	BRAND VALUE \$BILLIONS	CHANGE SINCE 2007
Google	25.6	43%
Apple	13.7	24
Amazon	6.4	19
Zara	6.0	15
Nintendo	8.8	13

Data: Interbrand

THE BIG LOSERS

Wall Street firms have taken a serious beating

BRAND	BRAND VALUE \$BILLIONS	CHANGE SINCE 2007
Merrill Lynch	11.4	-21%
Gap	4.4	-21
Morgan Stanley	8.7	-16
Citi	20.2	-14
Ford	7.9	-12

Data: Interbrand

gives penny-pinchers an excuse to pull back while still preserving share and save money. And most companies succumb to the pressure. During the last two recessions, in 1991 and 2001, overall ad spending fell.

The choice is even harder in the current environment. Amid tight credit and falling hous-

ing prices, consumers are more jittery than they have been since the mid-'70s. And some economists worry consumers are only beginning to feel the real hit to their wallets.

Right now, the smooth talkers on Madison Avenue are out there telling chief marketing officers that it's smart to buy more ads during a recession. The standard argument, summed up in numerous industry-sponsored research reports, goes like this: Since everybody else is pulling back, the gutsy marketer can buy ads on the cheap, grab a larger share of consumers' attention, and subsequently, the logic goes, win greater market share. Then, when the sun comes out and the economy recovers, the brand will ride high as its newfound customers start spending again. The cowardly competition? Forlorn and forgotten.

Real life isn't so simple, of course. Many factors determine whether spending into a downturn will work, not least of which is the quality of the product and the advertising. Plus, the consumer you thought you knew, pre-recession, can be almost unrecognizable. When times get tough, people reexamine old habits and brand loyalties. Their tastes shift dramatically as they cut back. "The rate of change can be phenomenal," says

(CREST AD) COURTESY THE HISTORY FACTORY

HARD TIMES, HARD SELL

Classic ad campaigns that were launched during economic downturns



1954 Winston: Launched in the same year that the American Medical Assn. issued an early study linking smoking to cancer, the campaign helped make Winston the No. 1 filter-tipped cigarette in the U.S.



1958 Crest: The Norman Rockwell-illustrated ads pulled at protective parents' heart strings. Crest's market share doubled in two years, from 6% to almost 13%, pushing the brand past its main competitor, Colgate.



1974 BMW: The campaign and slogan "The Ultimate Driving Machine" highlighted BMW's engineering, and made its spare interiors yuppie cool. U.S. sales accelerated from 15,007 vehicles in 1974 to 293,795 in 2007.



1980 Calvin Klein: "You Know What Comes Between Me and My Calvins? Nothing." So asked a sultry, 15-year-old Brooke Shields. The campaign scandalized the public—and turned jean sales white hot.

John Hayes, CMO at American Express. In the past year alone, he notes, consumers have far more negative perceptions of debt and spending on themselves.

Many companies that continue to invest in their brands during a downturn are not so much going on the offensive as playing defense. AmEx is no exception. CMO Hayes says he has been “doubling down” in recent months on messages that promote trust and security.

Often a downturn ups the ante in a defensive battle companies have been fighting for years. In such cases, pulling back is a false economy. Take Kellogg’s attempt to ward off cheaper private-label cereals while also raising prices to pass along rising commodity costs. In 2000 the company decided to increase its advertising spending to brand Kellogg’s cereals as premium products and avoid being commoditized. And despite a mild recession in 2001, Kellogg’s stayed the course. In 2007 it spent \$1 billion on advertising for the first time. The strategy so far has worked. In the first six months of this year, Kellogg’s was able to pass along higher ingredient costs, while many other food companies couldn’t. Second-quarter profits rose 9% and sales 11%, prompting the company to boost its full-year outlook. “We believe it’s critical, when the economy gets tougher, that people should be seeing the value of our brands constantly,” says Mark Baynes, Kellogg’s chief marketing officer. “Brands are much more than flakes in a box.”

Kimberly-Clark, which owns the Kleenex brand (No. 74) as well as Huggies diapers and Scott toilet paper, is also playing defense in the U.S. Yes, people buy its products no matter how the economy is doing. But broke consumers could decide they are fine crying into store-brand tissues. To justify charging more than its rivals, Kimberly-Clark is following

the usual playbook for packaged-goods companies: creating new iterations of the same product—extra-soft tissues, anyone? It’s also trying to forge a more personal connection with consumers by spending heavily online and on TV. “The worst thing you can do,” says CEO Tom Falk, “is pull in your brand-building spending and become more of a commodity.”

Then there are the companies that go on the marketing offensive. In some cases, they are perfectly suited to hard times and simply want to remind customers that they represent good value. Wal-Mart Stores, for example, has recently upped its advertising spending and returned to selling itself as a champion of the low- and middle-income consumer. McDonald’s (No. 8) won’t say how

WHEN TIMES GET TOUGH, PEOPLE REEXAMINE OLD HABITS AND BRAND LOYALTIES. THEIR TASTES CAN SHIFT DRAMATICALLY AS THEY CUT BACK

much it has spent on marketing in 2008. But since its Olympics ad blowout, it has shifted its focus to bargains on \$1 menu to keep U.S. sales growing.

Some companies, having reached the top, are willing to spend to stay there. Louis Vuitton (No. 16) plans to continue to boost its marketing budget, downturn or not. “We never change the long-term strategy because of short-term problems,” says CEO Yves Carcelle. Louis Vuitton’s aim is twofold: keeping the aspirational masses hooked on classic luggage and handbags and ensuring that fashionistas continue to see the company as edgy. Louis Vuitton has been pouring money into magazine ads and earlier this year released its first video commercial, which first ran online. The company also ran the 90-second spot—called “Where Will Life Take You?”—on CNN, the BBC, and in movie theaters worldwide. Meanwhile, Louis Vuitton has linked itself to big artists, including Takashi Murakami, with whom it sponsored a traveling exhibit. Global revenue grew 14% during the first six months of 2008.

Even underdogs can show some bite during a downturn. Amid slowing sales in the U.S., Volkswagen (No. 53) is going after a niche its Detroit rivals have pretty much left for dead: minivans. Pushing its new Routan minivan, says VW marketing manager Brian Thomas, strikes at the soft underbelly of his rivals: The Big Three have slashed ad spending on minivans, and the entire industry is running ads promoting fuel efficiency. That makes minivans a comparatively quiet niche, one in which it’s theoretically easier to grab consumers’ attention.

Thomas expects Toyota and Honda, which sell the popular Sienna and Odyssey minivans, respectively, to keep spending steady on marketing these vehicles. But he thinks a lower price (the Routan starts at \$24,700) and lighthearted commercials starring Brooke Shields will lure first-time buyers. He wouldn’t let on how much the company is spending to market the Routan but says the new minivan is getting more money allotted to it than any other VW model in the U.S. “We know that this is a huge growth opportunity for the VW brand,” says Thomas. “It’s consistent with our overall business plan over the next 10 years.” In other words: What recession? | **BW** |
— With Michael Arndt in Chicago

BUSINESSWEEK.COM | For a look at vintage TV ads aired during recessions, go to businessweek.com/go/tv/ads

Which brands do you love? Our interactive feature lets you pick your favorites and see the brands other *BusinessWeek* readers select. Also: The millennial generation’s take on our ranking, and brands that struggled at home but succeeded overseas. All this and more at businessweek.com/go/brand

BUSINESSWEEK TV | For more on the Best Global Brands, including an inside look at the winners, the losers, and this year’s surprises, watch *BusinessWeek TV*. To see video clips or find your local station and airtime by Zip Code, go to businessweektv.com



1981 IBM: Big Blue wanted an everyman entranced by the small size of its new personal computers. It chose a Charlie Chaplin look-alike. In 1983, IBM sold as many PCs as Apple had in the previous four years.

THE 100

TOP

BRANDS

Here's how Interbrand puts a number on the power of a name

Interbrand takes many ingredients into account when ranking the value of the Best Global Brands. Even to qualify for the list, each brand must derive at least a third of its earnings outside its home country, be recognizable beyond its base of customers, and have publicly available marketing and financial data. Those criteria eliminate most telecom companies, heavyweights like Wal-Mart, which sometimes operates under different brand names internationally, and privately held companies like Mars.

Interbrand only ranks the strength of individual brand names, not portfolios of brands, which is why Procter & Gamble doesn't show up. Airlines are not ranked because it's too hard to separate their brands' impact on sales from factors such as routes and schedules. Pharmaceutical brands don't appear because consumers typically relate to the product rather than

the corporate brand. Insurance companies, on the other hand, were added last year because they have begun to differentiate themselves and create household names.

BusinessWeek chose Interbrand's methodology because it evaluates brand value in the same way other corporate assets are valued — on the basis of how much it is likely to earn for the company in the future. Interbrand uses a combination of analysts' projections, company financial documents, and its own qualitative and quantitative analysis to arrive at a net present value of those earnings. The brand values are based on data collected during the 12 months prior to June 30, 2008. (So more recent developments, including the troubles at Merrill Lynch and AIG, are not factored into the brand valuations but are included in the descriptions of each brand.)

STEP ONE is calculating how much of a company's total sales falls under a particular brand. In some cases the brand encompasses nearly all sales, as with McDonald's. In others it is tied to only one set of products: Louis Vuitton within LVMH Group. Using reports from analysts at JPMorgan Chase, Citigroup, and Morgan Stanley, Interbrand projects five years of sales and earnings tied to each brand's products and services.

STEP TWO is calculating how much of those earnings results from the power of the brand. Interbrand strips out operating costs, taxes, and charges for the capital employed to arrive at the earnings attributable to intangible assets. Interbrand then estimates the brand's effect on earnings relative to other intangible assets such as patents and management strength.

FINALLY, those future earnings are discounted to arrive at a net present value. Interbrand discounts against current interest rates and also against the brand's overall risk profile to factor in brand strength. Factors include market leadership, stability, and global reach — or the ability to cross both geographic and cultural borders. The final result values the brand as a financial asset. *BusinessWeek* and Interbrand believe this figure comes closest to representing a brand's true economic worth.

RANK 2008 / 2007		2008 BRAND VALUE \$MILLIONS	2007 BRAND VALUE \$MILLIONS	PERCENT CHANGE	COUNTRY OF OWNERSHIP	DESCRIPTION	
1	1	COCA-COLA	66,667	65,324	2%	U.S.	Olympic sponsorship boosted its profile in Asia, where sales are surging. But Coke continues to record sluggish sales in its home market.
2	3	IBM	59,031	57,091	3%	U.S.	A resurgent tech-services business together with highly profitable software edges Big Blue ahead of rival Microsoft.
3	2	MICROSOFT	59,007	58,709	1%	U.S.	Windows Vista bugs and Apple's withering "I'm a Mac" ads challenge the software giant despite its monopoly. It is now rolling out a new ad campaign.
4	4	GE	53,086	51,569	3%	U.S.	A GE that doesn't make lightbulbs or dishwashers? In July it announced its intention to spin off the brand's iconic units as it focuses on global infrastructure.
5	5	NOKIA	35,942	33,696	7%	Finland	The iPhone has the buzz, but Nokia sells eight times as many smartphones. Its reputation for quality puts it far ahead of rivals in India and other emerging markets.
6	6	TOYOTA	34,050	32,070	6%	Japan	As auto sales plunge, even Toyota is suffering. Still its early move into hybrids, starting with the Prius back in 2001, looks smarter than ever.
7	7	INTEL	31,261	30,954	1%	U.S.	Sales are strong, and Intel still pays to place its logo in the ads of customers like Apple and Dell, but the Federal Trade Commission is investigating the practice.
8	8	MCDONALD'S	31,049	29,398	6%	U.S.	It's still mostly about burgers and fries, of course. But Mickey D's has a knack for the new stuff people want, like fancy coffees, breakfast sandwiches, and wraps.
9	9	DISNEY	29,251	29,210	0%	U.S.	Disney's marketing machine turned <i>High School Musical</i> into a tween girl blockbuster. It's hoping the new Disney XD cable channel will bring in the boys.
10	20	GOOGLE	25,590	17,837	43%	U.S.	Despite worries that it's getting too powerful, dominant search engine Google keeps gaining share thanks to highly relevant search results.

RANK 2008 / 2007			2008 BRAND VALUE \$MILLIONS	2007 BRAND VALUE \$MILLIONS	PERCENT CHANGE	COUNTRY OF OWNERSHIP	DESCRIPTION
11	10	MERCEDES-BENZ	25,577	23,568	9%	Germany	Mercedes has restored its reputation for quality and is a leader in fuel efficiency for its class, but a lack of compact models is hurting U.S. sales.
12	12	HEWLETT-PACKARD	23,509	22,197	6%	U.S.	A new all-in-one TouchSmart PC and "The Computer Is Personal Again" campaign bolstered HP. Now CEO Mark Hurd aims to beef up its printer division.
13	13	BMW	23,298	21,612	8%	Germany	The weak dollar has hurt U.S. sales of the sportiest German luxury brand, but it has profited from superior fuel economy, style, and performance.
14	16	GILLETTE	22,069	20,415	8%	U.S.	The Fusion razor hit \$1 billion in sales faster than any other P&G brand. Gillette is expanding its men's care dominance with new hair and body-wash products.
15	15	AMERICAN EXPRESS	21,940	20,827	5%	U.S.	Despite rising U.S. delinquencies, AmEx continues to woo elite customers. It ranked first in total purchase volume and cash advances to U.S. cardholders.
16	17	LOUIS VUITTON	21,602	20,321	6%	France	Louis Vuitton, the world's preeminent luxury brand, is tapping new wealth not just in India and China, but now in Romania, Finland, and Qatar.
17	18	CISCO	21,306	19,099	12%	U.S.	With its "Human Network" campaign, Cisco is pushing its image beyond Internet plumbing. Its TelePresence videoconferencing system is wowing corporations.
18	14	MARLBORO	21,300	21,283	0%	U.S.	As the middle class grows in developing economies like India and Ukraine, smokers are trading up to Marlboro, but smoking bans are hurting U.S. sales.
19	11	CITI	20,174	23,443	-14%	U.S.	Regulatory run-ins and losses in investment banking related to mortgages have damaged Citi's reputation. A broad business base has helped it survive so far.
20	19	HONDA	19,079	17,998	6%	Japan	A long-held reputation for producing fuel-sippers enables Honda to prosper even in an era of high gas prices.
21	21	SAMSUNG	17,689	16,853	5%	S. Korea	It edged past Japanese rivals to emerge as the top TV brand and passed Motorola as the No. 2 handset maker. But top leaders face trial for tax evasion.
22	NEW	H&M	13,840	New	New	Sweden	The Swedish purveyor of cheap chic continues its global assault by opening stores across the Middle East. Next stop: Japan and Russia.
23	27	ORACLE	13,831	12,448	11%	U.S.	The software giant's aggressive acquisition strategy is paying off—boosting its reputation among corporate tech buyers.
24	33	APPLE	13,724	11,037	24%	U.S.	Its products are hotter than ever, in part because of price cuts and clever advertising. Still, investors continue to fret over CEO Jobs' health.
25	25	SONY	13,583	12,907	5%	Japan	Sony's movies have been doing well. And the electronics business is healthier. But new products haven't come close to matching Apple's heat.
26	26	PEPSI	13,249	12,888	3%	U.S.	Pepsi has offset a challenging U.S. drinks market by growing strongly overseas, where the company is introducing a regular diet of new twists on the old fizz.
27	23	HSBC	13,143	13,563	-3%	Britain	While it took a hit on U.S. subprime loans, the London-based bank with a huge Asia presence looks to be riding out the credit crunch better than its peers.
28	24	NESCAFE	13,055	12,950	1%	Switzerland	Continuing a push upscale, it will roll out its European-style coffeemaking machine, Dolce Gusto, in the U.S. this fall.
29	29	NIKE	12,672	12,004	6%	U.S.	After a few lean years, the sneaker maker is boosting share in the U.S. and continues to pioneer online marketing with youth-oriented social networks.
30	28	UPS	12,621	12,013	5%	U.S.	Big Brown's win at the Kentucky Derby created buzz. And its new loan program for small-business customers has kept orders flowing amid hard times.
31	34	SAP	12,228	10,850	13%	Germany	The enterprise-software leader is becoming more accessible to smaller companies and emerging markets. A lawsuit by rival Oracle could hurt SAP's image.
32	31	DELL	11,695	11,554	1%	U.S.	Despite innovative designs and a push into retail stores, Dell is having a hard time matching stylish, user-friendly Apple in consumers' minds.
33	30	BUDWEISER	11,438	11,652	-2%	U.S.	The boom in microbrews has left Bud looking comparatively generic. Don't expect a turnaround: New owner InBev is more cost-cutter than brand builder.
34	22	MERRILL LYNCH	11,399	14,343	-21%	U.S.	Rotten mortgage securities led to huge losses and the departure of Merrill's top executives. The firm agreed in September to sell itself to Bank of America.
35	38	IKEA	10,913	10,087	8%	Sweden	A global cult brand, Sweden's Ikea keeps its customers hooked by offering discounts and other benefits through its Ikea Family loyalty scheme.
36	36	CANON	10,876	10,581	3%	Japan	The copier and camera brand continues to sell well despite recession worries. It's spending heavily to advertise its range of video and digital cameras.
37	32	JPMORGAN	10,773	11,433	-6%	U.S.	The bank suffered less than its rivals under CEO Jamie Dimon, whose 11th-hour bid for Bear Stearns temporarily salvaged Wall Street's jitters.
38	35	GOLDMAN SACHS	10,331	10,663	-3%	U.S.	The investment bank emerged relatively unscathed from the subprime mortgage meltdown, and as of mid-September its reputation remained largely intact.
39	40	KELLOGG'S	9,710	9,341	4%	U.S.	Thanks to a double-digit hike in ad spending, the cereal maker has done the remarkable: raised prices despite a consumer slowdown, widening its margins.
40	44	NINTENDO	8,772	7,730	13%	Japan	Nintendo made a killing off its best-selling Wii and DS video game consoles, teaching industry giants Microsoft and Sony a lesson about innovation.

RANK 2008 / 2007	2008 BRAND VALUE \$MILLIONS	2007 BRAND VALUE \$MILLIONS	PERCENT CHANGE	COUNTRY OF OWNERSHIP	DESCRIPTION	
41 39	UBS	8,740	9,838	-11%	Switzerland	The European bank was hard hit by subprime losses and faced regulatory scrutiny, which led in turn to the ouster of much of the Swiss bank's top brass.
42 37	MORGAN STANLEY	8,696	10,340	-16%	U.S.	Last year, Morgan Stanley adopted the slogan "World Wise." It doesn't look so smart given its subsequent writedowns on mortgage-related debt.
43 42	PHILIPS	8,325	7,741	8%	Netherlands	Ditching the semiconductor division and refocusing on high-margin lighting and medical businesses is revitalizing the Dutch electronics maker.
44 ^{NEW}	THOMSON REUTERS	8,313	New	New	Canada	The data provider-cum-news organization must prove its post-merger mettle. It plastered subways and stock exchanges with its new logo to raise its profile.
45 46	GUCCI	8,254	7,697	7%	Italy	A moderately priced handbag line is boosting sales, but could \$600 canvas bags tarnish the brand's luxury cachet?
46 48	EBAY	7,991	7,456	7%	U.S.	Revenues grew 25% at the online auctioneer despite the \$1.4 billion writedown of Skype and criticism from sellers about rising fees.
47 50	ACCENTURE	7,948	7,296	9%	U.S.	With the economy so turbulent, more CEOs are seeking Accenture's tech-savvy strategic expertise.
48 43	SIEMENS	7,943	7,737	3%	Germany	The Munich-based electronics maker is struggling to protect its reputation in the wake of a bribery scandal that has cleaned out a generation of managers.
49 41	FORD	7,896	8,982	-12%	U.S.	The battered automaker is refocusing on smaller fuel-efficient cars and its main Ford brand. But it will take years to resurrect the company's image.
50 45	HARLEY-DAVIDSON	7,609	7,718	-1%	U.S.	The motorcycle maker is still a minor player abroad compared with Japanese rivals, but with the weak dollar, it's winning lots of fans in China, India, and Brazil.
51 51	L'OREAL	7,508	7,045	7%	France	China and Russia have become key growth engines for the world's No. 1 beauty-products group, even as U.S. and European sales weaken.
52 52	MTV	7,193	6,907	4%	U.S.	U.S. ratings have revived, while the entertainment giant's global footprint continues to expand: The launch of MTV Arabia is the latest big overseas venture.
53 54	VOLKSWAGEN	7,047	6,511	8%	Germany	A strong push in China and other emerging markets is helping it gain ground on Toyota, but VW needs to combat a poor image among U.S. consumers.
54 47	AIG	7,022	7,490	-6%	U.S.	Massive losses on mortgage-related investments and a plummeting stock battered the New York insurer, and despite a federal bailout its future is cloudy.
55 49	AXA	7,001	7,327	-4%	France	A steady performer despite global financial turmoil, its recent acquisitions of Switzerland's Winterthur and Equitable of the U.S. are raising AXA's profile.
56 53	HEINZ	6,646	6,544	2%	U.S.	Although Heinz has been making ketchup for 133 years, it finds ways to stay fresh. It is racking up sales in Asia with products like ABC soy sauce.
57 57	COLGATE	6,437	6,025	7%	U.S.	Colgate has spent big on marketing, boosting sales faster than climbing raw material costs. More than 80% of oral care sales are outside the U.S.
58 62	AMAZON.COM	6,434	5,411	19%	U.S.	Amazon continues to gain share in e-tail—despite some service outages and muted success in digital music, movies, and its Kindle electronic book reader.
59 56	XEROX	6,393	6,050	6%	U.S.	The onetime innovation leader remains heavily reliant on copier sales, but it reinstated its dividend and launched its first rebranding in 40 years.
60 58	CHANEL	6,355	5,830	9%	France	As part of an effort to woo younger customers, it's sponsoring a traveling art show that lands in New York's Central Park this fall.
61 59	WRIGLEY'S	6,105	5,777	6%	U.S.	Americans have chewed Juicy Fruit since the late 1800s. In the 2000s, it's increasingly Russians and Chinese who are snapping Wrigley's gums.
62 64	ZARA	5,955	5,165	15%	Spain	The flagship brand of Spanish fast-fashion retailer Inditex keeps opening stores worldwide as cash-strapped consumers shift to more inexpensive brands.
63 63	NESTLE	5,592	5,314	5%	Switzerland	Venturing far beyond its chocolate roots, the Swiss food giant is restyling itself as a purveyor of premium-priced health and nutrition products.
64 60	KFC	5,582	5,682	-2%	U.S.	KFC is the hottest fast-food brand in China. And to boost business in the increasingly health-conscious U.S., it's introducing grilled chicken meals.
65 55	YAHOO!	5,496	6,067	-9%	U.S.	The Internet icon recently escaped Microsoft's hostile acquisition bid, but a long, slow profit decline has blunted its once-hip image.
66 67	DANONE	5,408	5,019	8%	France	Its ultra-cheap dairy products are thriving in poor countries, while digestion-aiding Activia and immunity-enhancing DanActive yogurts are hits in the West.
67 68	AUDI	5,407	4,866	11%	Germany	Racier designs and sharper performance have helped it gain ground on BMW and Mercedes. Plans for a new fuel-efficient subcompact should keep it growing.
68 66	CATERPILLAR	5,288	5,059	5%	U.S.	The construction and mining equipment maker is now joining forces with CleanAIR Systems to reduce emissions in its existing products—giving it a greener halo.
69 65	AVON	5,264	5,103	3%	U.S.	A turnaround at Avon seems to be on track, as the cosmetics seller rings up more door-to-door sales in Russia, Brazil, and other growing markets.
70 69	ADIDAS	5,072	4,767	6%	Germany	The sporting goods company generated impressive sales growth in Latin America and China, but Adidas remains a relative underdog in the U.S.

RANK 2008 / 2007	2008 BRAND VALUE \$MILLIONS	2007 BRAND VALUE \$MILLIONS	PERCENT CHANGE	COUNTRY OF OWNERSHIP	DESCRIPTION	
71 71	ROLEX	4,956	4,589	8%	Switzerland	Business is booming in Asia and the Mideast as the luxury watchmaker enjoys strong demand for its Yacht-Master II and Sea Dweller Deepsea models.
72 72	HYUNDAI	4,846	4,453	9%	S. Korea	Lofty oil prices have dampened its campaign to go upscale, but it's adding to its lineup of small fuel-efficient vehicles in an attempt to spur sales.
73 ^{NEW}	BLACKBERRY	4,802	New	New	Canada	The brand is continuing its push into the consumer market with its "Life On BlackBerry" advertising campaign and new models, including a flip phone.
74 70	KLEENEX	4,636	4,600	1%	U.S.	To ward off generic rivals, Kleenex has been advertising heavily—from TV spots to an Internet site that lets consumers create personalized Kleenex boxes.
75 75	PORSCHE	4,603	4,235	9%	Germany	By topping J.D. Power's initial quality study for the third year in a row, Porsche shows that performance and reliability aren't mutually exclusive.
76 73	HERMES	4,575	4,255	8%	France	With robust sales of its high-end perfumes and silk scarves, this luxury house so far has proved itself immune to global economic woes.
77 61	GAP	4,357	5,481	-20%	U.S.	Sales remain anemic, but Gap hopes a leaner inventory and a new head designer from the fashion world will make it king of the classic look once more.
78 78	PANASONIC	4,281	4,135	4%	Japan	Matsushita Electric Industrial renamed itself Panasonic to strengthen the brand, while offering more flat-panel TVs to compete with Sony and Samsung.
79 83	CARTIER	4,236	3,852	10%	France	It generated buzz by advertising on the youth-oriented MySpace in the U.S., but China is now the No. 1 market for its pricey watches and jewelry.
80 79	TIFFANY & CO.	4,208	4,003	5%	U.S.	The weak dollar is bolstering sales in Asia and Europe. Meanwhile, tourists have been flocking to Tiffany's Fifth Avenue flagship in New York.
81 74	PIZZA HUT	4,097	4,254	-4%	U.S.	Cheese prices are through the roof, making times tough for pizza chains. To recharge sales, Pizza Hut is venturing into pasta and other new dishes.
82 80	ALLIANZ	4,033	3,957	2%	Germany	Candid talk to investors and a pricey advertising campaign is helping Allianz salvage its image amid the credit meltdown.
83 85	MOET & CHANDON	3,951	3,739	6%	France	Despite M&C's glitzy "Be Fabulous" ad campaign, Champagne sales have gone flat during the economic downturn.
84 84	BP	3,911	3,794	3%	Britain	New CEO Tony Hayward is cleaning up BP's sloppy operations, but tensions with the company's Russian partners are a new distraction.
85 88	STARBUCKS	3,879	3,631	7%	U.S.	Still strong abroad, Starbucks hopes new coffee machines, nutritious smoothies, and the shuttering of 600 unprofitable stores will help in the U.S.
86 81	ING	3,768	3,880	-3%	Netherlands	ING made several acquisitions in Latin America to expand its wealth management business there. And it continues to make inroads in Asia.
87 77	MOTOROLA	3,721	4,149	-10%	U.S.	Motorola's global phone business is struggling, but steady performance in cable set-tops and wireless network equipment are keeping its brand alive at home.
88 89	DURACELL	3,682	3,605	2%	U.S.	The battery leader is feeling heat from rivals, but upgrades to its lineup, such as the long-lasting Ultra, have been enough to keep the brand on top.
89 91	SMIRNOFF	3,590	3,379	6%	Britain	Worldwide sales have stayed strong. In the U.S., Smirnoff is tying its brand to all things hip-hop.
90 92	LEXUS	3,588	3,354	7%	Japan	These are difficult times for almost all automakers, but the luxury line's reputation for quality and innovation continues to make it an industry-leading brand.
91 94	PRADA	3,585	3,287	9%	Italy	Prada plans to go public this autumn. Capital raised from the IPO could help the company expand into new luxury markets in Russia, China, and India.
92 90	JOHNSON & JOHNSON	3,582	3,445	4%	U.S.	The maker of mainstays like Band-Aid strengthened its market position by buying Pfizer's consumer unit for \$16 billion, adding Listerine, Bengay, and more.
93 ^{NEW}	FERRARI	3,527	New	New	Italy	The newly rich in Asia and the Middle East can't wait to get behind the wheel, while Ferrari's 599 GTB Fiorano model boosted sales in developed markets.
94 ^{NEW}	ARMANI	3,526	New	New	Italy	It extended its reach into electronics by collaborating with Samsung to create a designer mobile phone and now a luxury flat-screen television.
95 87	HENNESSY	3,513	3,638	-3%	France	The cognac maker is targeting markets such as China and Russia where the super-rich can buy 100-year-old Hennessy cognac for \$200,000.
96 ^{NEW}	MARRIOTT	3,502	New	New	U.S.	Businesses and consumers are cutting back on travel, hurting Marriott. But a partnership with hotel guru Ian Schrager has helped burnish the brand.
97 93	SHELL	3,471	3,331	4%	Netherlands	CEO Jeroen van der Veer's straight talk, along with the unification of the British and Dutch wings, has cleaned up Shell's image.
98 96	NIVEA	3,401	3,116	9%	Germany	Nivea's sales grew 32.5% on the strength of its Good-bye Cellulite line along with aggressive marketing and strong sales for men's skin-care products.
99 ^{NEW}	FEDEX	3,359	New	New	U.S.	Rebranding Kinko's as FedEx Office broadened the company's image from a delivery company to the complete back office for millions of small businesses.
100 ^{NEW}	VISA	3,338	New	New	U.S.	Visa's debit card business continued to climb, helping the card company weather a slowdown in discretionary spending.

The brand valuations draw upon publicly available information, which has not been independently investigated by Interbrand. Valuations do not represent a guarantee of future performance of the brands or companies.

Data: Interbrand, JPMorgan Chase & Co., Citigroup, Morgan Stanley, *BusinessWeek*

Frontier jets sit at Denver International. The airline has filed for Chapter 11



AIRLINES

Bitter Winds Buffet the Upstarts

As discount airlines grapple with rising costs, big carriers enjoy a rare tailwind

By Dean Foust

When the airline industry was deregulated in 1978, it gave rise to a new breed of upstart carriers such as People Express, Southwest Airlines, and AirTran Airways. All were able to offer low prices by employing non-union workers while flying in and out of underused airports. After the 2001 terrorist attacks, traditional carriers including United, Delta, and US Airways toppled into bankruptcy, and several analysts predicted the discount carriers would send the dinosaur airlines into permanent retreat.

Instead, it's now the upstart airlines that have hit turbulence. The combination of soaring fuel prices, unforgiving credit markets, and a pullback in leisure travel has pushed carriers such as Frontier Airlines into Chapter 11 and prompted the liquidation of others, including Skybus Airlines,

ATA Airlines, and Aloha Airlines. Even survivors AirTran, Spirit Airlines, and JetBlue are shedding routes to cut costs. They're also raising fares up closer to those of the major carriers. "For many, their sales pitch was just price, and that isn't much of an advantage for them anymore," says Ray Neidl, an airline analyst for Calyon Securities (USA).

Why the reversal of fortunes? Clearly, soaring fuel prices have taken

their toll, forcing the discounters to raise fares roughly 5% over the past year just to cover costs. While the so-called legacy carriers including Delta Air Lines and Continental Airlines have also been hammered by the oil spike, they tend to ferry a higher proportion of business travelers who are more willing to absorb the higher fares. By contrast, executives at the discounters—one of whom boasted that he had stolen customers not from the

big airlines but from bus operators like Greyhound—have seen demand fall as some of their most cost-conscious clientele head back to the bus (below).

But the discounters' challenges extend beyond the pump. The wave of bankruptcy filings by major carriers since 2002 has allowed them to narrow the cost advantage enjoyed by discounters. According to Calyon's Neidl, the difference in operating margins between the traditional airlines and



BoltBus: Free Wi-Fi, power outlets, and a frequent-rider program

SUDDENLY, IT'S COOL TO TAKE THE BUS

New low-cost operators are attracting air travelers

By Brian Burnsed

When Bobbie Joe Crail prepared to return home to Detroit after visiting friends in St. Louis in mid-September, she checked the online fares for flights she had taken in the past. Stunned at the high prices for a seat on JetBlue Airways and Southwest Airlines, Crail, 22, cast about for alternatives. After a little digging, she stumbled on Megabus, an upstart bus line that would get her home—albeit over a two-day trek that wound through Chicago—for a mere \$30. "The bus can be inconvenient," Crail sighs. "But it's so much cheaper to

string bus trips together than to fly."

If airline deregulation spawned a generation of low-cost carriers, the era of \$100-a-barrel oil is giving rise to a new breed of discount bus operators. And unlike discount airlines, low-cost bus lines are thriving. While overall bus travel continues to grow in the mid-single digits, discount operators such as BoltBus, DC2NY, Vamoose, and Coach USA's Megabus are enjoying heady growth by offering cheap, no-frills travel. "People are looking for alternatives...that are safe, reliable, and affordable," says Dale Moser, COO at Coach USA. "We

think [growth] is going to continue."

Six-month-old BoltBus (a joint venture of Greyhound Lines and Peter Pan Bus Lines) won't disclose revenues, but it says it has ferried 225,000 passengers among the high-traffic cities of the Northeast—about 10% more than originally forecast. And Chicago-based Megabus says it has grown at a rate of 107% annually since its 2006 launch, prompting it to expand as far afield as Memphis, Toronto, and Boston with fares starting at \$1, though only one seat per bus is guaranteed at that rate.

"It's not just high fuel prices—it's the hassle factor at the airports that has left many fliers disenchanted," says Joseph P. Schwieterman, a professor of transportation at DePaul University. "Travelers who wouldn't have given a thought to bus travel are now stepping on board."

For bargain bus lines, the key to success is their ability to keep costs to a minimum. BoltBus, for instance, picks up passengers curbside, sparing it the expense of leasing space at a terminal. And it only sells tickets online, which eliminates the cost of employing ticket agents. (Roughly 90% of Greyhound's tickets are sold either by phone or at a terminal.) BoltBus is also building business with a frequent-rider program.

Whether such players are making fistfuls of money at these prices is open to debate. But passengers are enjoying the ride. BoltBus offers free wireless Internet and power outlets. And at no point do passengers have to take their shoes off, undergo a pat-down, or deal with long airport delays. **| BW |**
—With Damian Joseph in Chicago

the discounters has shrunk since 2004 from 7% to 2%. That has prompted the traditional carriers, who are sitting on larger cash hoards amassed after bankruptcy, to take the offensive against discounters. "For the first time in a while, we're willing to duke it out on routes that the [low-cost carriers] have owned," says an executive for one major airline. "In this cycle we have the better hand, and we're going to leverage it."

For their part, executives at several low-cost carriers remain sanguine about their prospects. For one, they say

that the uniformity of their fleets—AirTran and Southwest fly variations of the Boeing 717 and 737—give them an edge in maintenance and pilot training costs over the mainline carriers, which still juggle a mishmash of aircraft accumulated over the decades. Their workforces also tend to be younger—and cheaper—than their larger brethren. But even the mighty Southwest, which has been insulated by shrewdly timed fuel hedges, admits it needs to boost its revenues up to 30% in the next few years to cover costs as

its favorable contracts expire. The options: flying more, fees from booking hotels and rental cars on its Web site, and fare hikes. "I don't think anyone is immune in this environment," says Gary Kelly, chief executive of Dallas-based Southwest.

Even with oil prices easing, the recent wave of bankruptcies may make it tough to woo the investors needed to get the next generation of AirTrans and JetBlues off the tarmac. "If these conditions remain, you're not going to see many new upstarts," says Robert Fornaro, chief executive of Orlando-based AirTran Airways.

Given the quixotic allure of the airline industry, though, some entrepreneurs continue to try. After founding Skybus in 1999—and watching it fold earlier this year—John Weikle is trying to raise funds to launch a new carrier, Jet America. "An investment banker told me once, 'Plan an airline during a recession, fly during a recovery,'" says Weikle. That could be good news for customers. But airline investors may be slow to jump on board. | BW |

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Zoom and Gloom

Times are tough for discount carriers north of the border, too. Canada's Zoom Airlines suspended operations in late August, leaving passengers stranded around the world. In a CBC report, executives blamed the country's sagging economy and the "horrendous" increases in fuel prices. Halifax Airport officials got permission to seize one of the carrier's grounded planes, pledging to hang on to it until Zoom paid its bills.



To read more, go to <http://bx.businessweek.com/airline-industry>

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Green Power: Buyers Beware

Utilities are offering eco-friendly options for a fee—but much of that cash isn't paying for clean energy

By Ben Elgin and Diana Holden

It's one of the latest ways big business claims to be curbing global warming: More than 750 utilities across the country now offer customers the chance to pay a premium on their electricity bills to generate "green power." But it turns out that, in many cases, most of the money goes for marketing costs, and little can be traced to the generation of additional renewable energy.

Lisa Baker of Atlanta jumped at the opportunity last summer to protect the environment when Georgia Power invited consumers to pay extra to "help bring more renewable power to Georgia." Paying the minimum annual premium of \$54 "is equivalent to planting 125 trees or not driving 2,000 miles," the utility, a unit of giant



Southern Co., boasts on its Web site. Baker, a 33-year-old freelance writer, joined more than 4,000 other customers who signed up for the Green Energy program. "I wanted [the utility] to

know there's a market for renewable power," she says.

But public records show that more than 60% of the \$239,000 spent during the second quarter of 2007, when Baker signed up, went to advertising and administration. "They are preying on people's good will," says Stephen Smith, executive director of the Southern Alliance for Clean Energy, an advocacy group in Knoxville.

Georgia Power says the 60% figure has now dropped to only 15% of overall costs. The company adds that much of the rest goes to purchases from a local

landfill that generates methane from decomposing garbage.

But buying gas-powered electricity from the landfill doesn't appear to achieve any additional environmental benefit: The renewable gas-from-trash is now actually less expensive than conventional sources like coal. "Any utility would use the landfill gas [without customers' green premium]. It's a no-brainer," says Smith.

Georgia Power counters that electricity generated by landfill methane was more expensive than other power when the program began in 2006. In addition, the company says it aims to

reduce the green premium by as much as 22%.

More than 600,000 U.S. households have signed up for utility-sponsored programs claiming that they reduce greenhouse gas emissions that contribute to climate change. That's nearly double the figure from 2004, according to the federally funded National Renewable Energy Laboratory in Golden, Colo.

But given their eagerness for environmental bragging rights, many of the power companies are strangely reluctant

FOLLOW THE MONEY

For customers willing to shell out a little extra on each month's bill, utilities are promising to foster renewable energy. However, a good portion of that money is going to marketing

COMPANY	PROGRAM	REALITY CHECK
Florida Power & Light	Sunshine Energy 38,308 customers	Less than one-half of consumer contributions went to renewable energy projects; program killed
Georgia Power	Green Energy 4,042 customers	Customers pay a premium, but green energy is actually cheaper than conventional alternatives
Duke Energy (Indiana)	GoGreen 1,156 customers	Less than 18% of voluntary consumer contributions last year went to renewable energy development
Alliant Energy (Iowa)	Second Nature 7,656 customers	More than 56% of expenditures went to marketing and administration costs, not green energy
Dominion (and others in North Carolina)	NC GreenPower 14,086 customers	Only 19% of program spending last year was directed to renewable energy projects

Data: Company reports, utilities commission filings, *BusinessWeek* research

to explain with specificity how extra payments from consumers produce green energy that wouldn't be generated otherwise.

"ALL ABOUT PR"

In July the Florida Public Service Commission pulled the plug on Florida Power & Light's green energy program after an audit found that more than half of the premiums collected went to marketing and administration instead of renewable energy purchases. The program, known as Sunshine Energy, had more than 38,000 participants paying an additional \$9.75 a month. In a regulatory hearing in July, Public Service Commissioner Nathan Skop described the program as "all about PR and of little substance."

Florida Power & Light staunchly defends the program, arguing that billboards, newspaper ads, and bill inserts were needed to alert consumers. The utility says that the rest of the money went to new solar-power installations and the purchase of renewable energy credits. RECs are certificates indicating that a green power developer, such as a wind farm, has generated environmentally friendly energy. Purchasers of RECs take credit for funding the clean power. Florida Power & Light won't disclose, however, most of the sources that supplied RECs to its Sunshine Energy program, citing confidentiality obligations.

Utilities devoting only a modest slice of voluntary green premiums to renewable power generators is something of a pattern. Duke Energy's GoGreen Power program in Indiana has signed up more than 1,100 customers, who pay a premium of at least \$5 per month. According to Duke's marketing literature: "Purchase of GoGreen power ensures that a specified amount of electricity is produced from renewable sources." But records for 2007 reveal less than 18% of the premiums, or about \$15,800, went to brokers to buy RECs; 48%, or \$42,950, went to marketing the program.

Duke says that while it has had to spend significant amounts to recover GoGreen's start-up costs, the program has nevertheless already contributed to protecting the environment. **| BW |**

ENTERTAINMENT

Blu-ray: Playing for a Limited Engagement?

The technology's staying power is in doubt now that Hollywood is working to expedite video downloads

By Cliff Edwards

Blu-ray, we hardly knew ye. Consumers are starting to buy video players for high-definition Blu-ray discs, and sales are expected to rise sharply in the next few years. But already some of the technology's backers say its days are numbered. "I think it has five years left," Andy Griffiths, a director of consumer

ers to download and view copyrighted content on all manner of devices.

"It's all about consumer freedom and consumer choice," says Mitch Singer, president of the consortium, the Digital Entertainment Content Ecosystem.

Getting movies off the Net involves plenty of hassles today. Downloads can take forever, selections are limited, and

piracy-protection schemes make it tough to move a movie you get on a PC to a TV. But the consortium intends to work out these issues as quickly as possible. "The traditional content owners had an epiphany and realized they could no longer afford to dillydally in moving their businesses into the Internet Age," says Carmi Levy, senior vice-president at consultant AR Communications.

Blu-ray has a bright short-term future. Research firm Gfk predicts sales of Blu-ray hardware and discs will quadruple this year, to \$1.5 billion and hit \$8 billion in 2010. Sony, the technology's main backer, pre-

dicts the strong demand will continue. Blu-ray will be the best choice for high-definition content "for the foreseeable future," says Chris Fawcett, a Sony Electronics vice-president.

But it may get increasingly difficult to persuade people to buy Blu-ray players, which run about \$300, as they find it easier to get high-quality movies off the Net. "Blu-ray is probably going to be the last physical [product] where you walk into a store, get a movie in a box, and bring it home," says Levy. **| BW |**



electronics at Samsung, the second-biggest seller of Blu-ray players, told the media this month.

Why the dire forecast? After all, Blu-ray triumphed in the battle for a high-definition standard with HD DVD less than a year ago. But now consumers are warming to the idea of getting movies and other video off the Internet, and for the first time, major studios and their partners are rushing to accommodate. On Sept. 12 a consortium of some of the biggest names in tech, including Intel and Hewlett-Packard, announced they would collaborate with Hollywood on standards to make it easier for consum-

Blu-ray disk:
"I think it has five years left," says a Samsung executive

Make-or-Break Time For Yahoo

It's counting on Apex, its new online advertising system, to challenge Google and fend off Microsoft

By Robert D. Hof

Slouched in a chair in the Holy Canoli conference room at Yahoo!'s Silicon Valley headquarters one recent September day, a taciturn Jerry Yang looks every bit the embattled chief executive he is. With profits falling and sales growth slowing, the Internet portal's stock price has sunk below 19—a five-year low and 40% less than what Microsoft offered before walking away from its \$47.5 billion buyout bid in May. Angry shareholders are still calling for his head. Then Yang starts

annual Advertising Week conference in New York, which opens on Sept. 22. Apex' goal is to make it far easier to buy and sell display ads, those pictorial and video banners that are the chief revenue source for most Web sites.

The core of the system is a free online marketplace where publishers—Yahoo and its network of partners, including 784 newspapers—use a simple dashboard to post ad slots available on their Web pages. Advertisers, using anonymous data on visitors to the pages, can target ads to the most likely prospective buyers in particular geographic areas—say, ads for minivans to married women aged 31 to 40 in the Chicago metro area. In one transaction, they can reach potential buyers on Yahoo and on partner sites.

Yang's big hope is that improved targeting, greater reach, and less buying friction will make adver-

tisers willing to pay higher rates. In particular, Yahoo aims to help more Web pages, especially "remnant" pages with little obvious commercial value, command something a bit closer to the rates Google gets on search-results pages. This way, Yahoo can start to close the widening gap between Google's expected \$16.2 billion in revenue this year and Yahoo's \$5.6 billion.

Under a previous ad deal, some newspapers already have generated ad rates on some Yahoo pages two to three times what Yahoo itself was getting. In Atlanta, Cox Newspapers grossed an additional \$1 million this year selling

\$16.2
Billion

Google's expected revenue in 2008

\$5.6
Billion

Yahoo!'s expected revenue in 2008

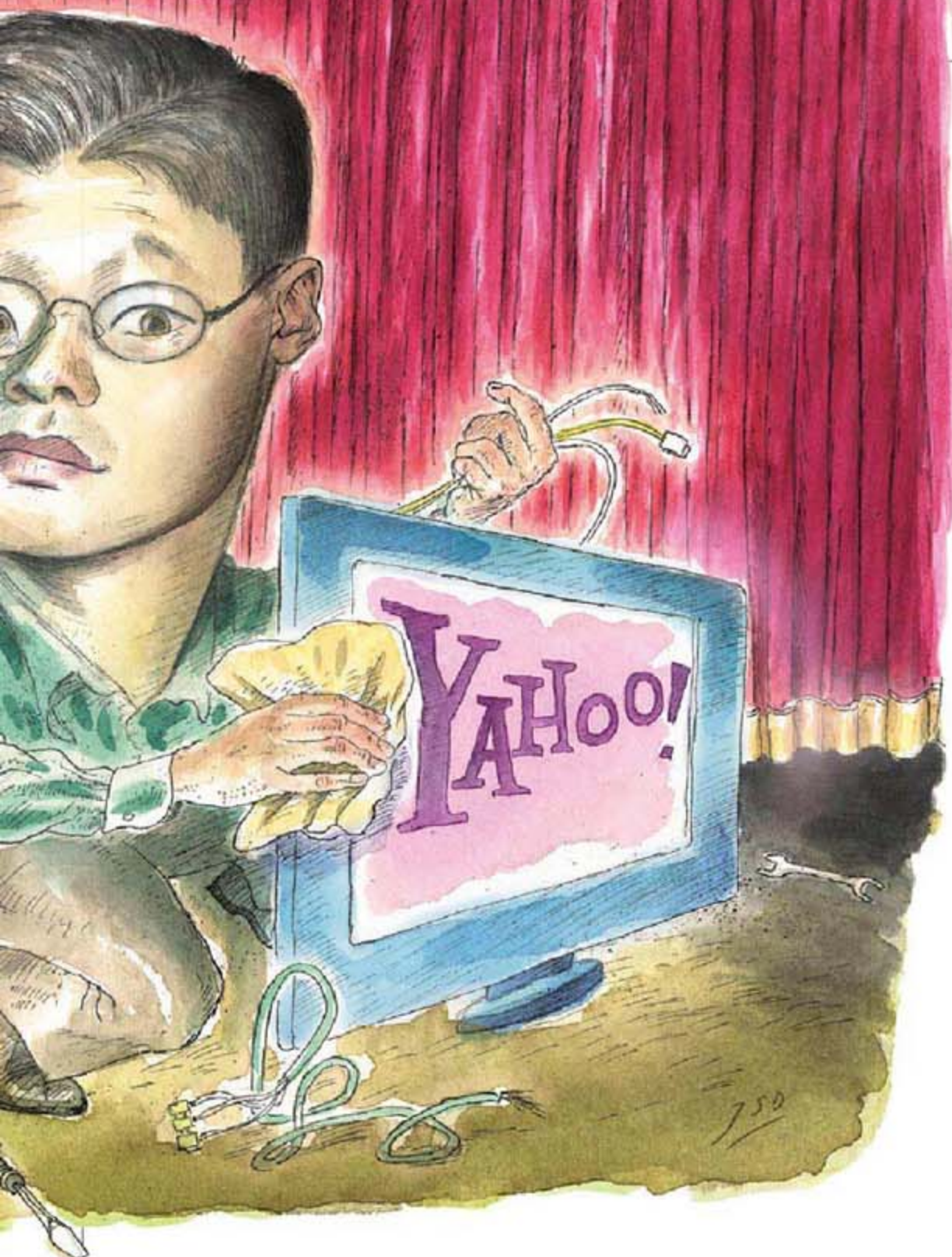
talking about the imminent debut of an ambitious online advertising system. He leans forward, and the words pour out. "This is a big bet," he says, his voice rising. "It is truly the next generation of advertising."

It's also a do-or-die proposition. More than any other project, the ad system could be Yang's last chance to reverse the flagging fortunes of the company he co-founded in 1994 with Stanford University buddy David Filo. The culmination of a marathon effort by hundreds of engineers, the system—code-named Apex, for Advertiser Publisher Exchange—will be unveiled at the



ads on Yahoo, thanks to the ability to get broader reach among local consumers and thus lure bigger-spending advertisers. Apex will automate that process, allowing partners to sell ads on many more Yahoo pages. Leon Levitt, Cox's vice-president of digital media, says his company eventually plans to shift all its display ad placement business away from its current partner, Google's DoubleClick unit.

Yahoo's ambitious plan has gained urgency in recent days as a tentative \$800 million-a-year search-advertising deal with Google faces intense scrutiny from antitrust officials. If that setup is nixed, Yang will be all the more dependent on display ads to convince shareholders he didn't mess up in resisting the Microsoft deal. Meantime,



rivals are pursuing similar plans. Next year, Google is expected to expand DoubleClick's own ad exchange, which matches ad buyers and sellers. "We want to apply the science of search to what is today the art of display," says David Rosenblatt, a Google ad executive. Microsoft hopes to expand its display reach in the coming year or so, too.

"WEB 2.0 WORLD"

Yahoo has a lot to prove. Its last big software project, a search-ad system called Panama, was delayed repeatedly and has failed to slow Google. Moreover, Yahoo's expertise has always been in building audiences, not creating whiz-bang technology. Indeed, a key piece of Apex is technology from the ad exchange Right Media, which

Yahoo acquired last year. The overriding question is whether the company can reinvent itself as a tech power that can compete with the übergeeks at Google, Microsoft, Facebook, and a raft of Web upstarts gradually stealing away Yahoo's audiences and advertisers. "We have to build an advertising system that lives in the Web 2.0 world," says Yang. If he can't, Yahoo's future could be a slow fade to irrelevance—or, if new Yahoo board member Carl Icahn and other shareholders get their wish, a quick meal for a still-hungry Microsoft.

The Apex project got under way in late 2006 as Yahoo's fortunes headed south. Tensions over the new tech-focused ad initiative broke into public view in June 2007 when ad sales chief Wenda Millard left for Martha Stew-

art Living Omnimedia. In an unusually blunt press release about the staff shakeup, Yahoo said "the industry has shifted and requires a different set of skills." Millard later decried unnamed ad networks that sell ad inventory "like pork bellies." The same month, with no sign of a turnaround, CEO Terry Semel resigned and Yang took over.

Despite the turmoil, the project stayed on track through more than a year of development. A half-dozen project leaders and executives conferred every Sunday at 7 a.m. for an hour to plan the week's activities. As a December 2007 deadline to produce a working demonstration system neared, teams worked around the clock to mesh their code.

They made it, but Yahoo's business was deteriorating. On Jan. 29 the company said fourth-quarter profits plunged 23%, and its stock slid to a four-year low. Two days later, Microsoft pounced with a hostile bid to buy Yahoo. For all that, Apex rolled out on time to newspapers in mid-August.

Yahoo's not done yet. It plans to open Apex in coming months to advertisers, agencies, and more commercial Web sites—and eventually to all kinds of online advertising, including search and mobile ads. Meanwhile, the growth of display ads is starting to slow as the economy slumps. "Yahoo's trying to move more into display at just the time it's declining," says Jeffrey Lindsay, an analyst with Bernstein Research. Yang insists Yahoo is in for the long haul. But his time is running short. | **BW** |

Business Exchange

Read, save, and add content on BW's new Web 2.0 topic network

Why People Click

In his new book, *Click: What Millions of People Are Doing Online and Why It Matters*, author Bill Tancer analyzes how data often trumps marketers' intuition on how to appeal to consumers.



To read Tancer's blog, go to <http://bx.businessweek.com/yahoo>

McNerney's Bumpy Ride at Boeing

From a showdown with Defense to Dreamliner disappointments, the CEO has a mixed record

By Joseph Weber

W. James McNerney Jr., who pitched for Yale University nearly 40 years ago, can play hardball. Take the ultimatum the Boeing chief executive officer delivered to a top defense official in late August. Give Boeing six more months and a legitimate shot to bid on the now infamous \$35 billion airborne-refueling tanker plane deal, McNerney said. Otherwise he would quit the competition—

leaving a sole bidder and a potentially explosive reaction from Congress. “He put the Secretary of Defense into a real crack,” says a congressional staffer familiar with the meeting. “To McNerney’s credit, it worked.”

Score that one for McNerney, who may prove to be one of the most hard-nosed leaders in Boeing’s history. Twenty days after the showdown, the Defense Dept. abruptly canceled the competition, postponing the tanker decision until the next Administration. That stunning turn in a tortuous seven-year fight was McNerney’s second triumph in the battle: Earlier this year he mounted a highly unusual protest that caused the Pentagon to reopen the decision to award the contract to a rival alliance of Northrop Grumman and European Aeronautic Defence & Space, maker of Airbus planes. “He handled that very deftly,” says Boeing director



When McNerney took over, he right away tightened in-house ethical oversight

Edward M. Liddy, who has just been named CEO of American International Group.

McNerney has had a mixed record since being tapped in 2005 to run Boeing after back-to-back scandals. One CEO’s tenure ended when a Boeing chief financial officer and a Pentagon official were found guilty of improprieties

in the first go-round on a tanker deal in 2002; a second CEO’s career was cut short after an affair with another Boeing executive. McNerney cleaned house, paid a \$615 million fine, and toughened in-house ethical oversight, impressing Boeing’s harshest critic, Senator John McCain. Southwest Airlines CEO Gary C. Kelly, a big customer of Boeing’s, adds: “I’m glad that

Jim McNerney is at the helm.”

Internally, the former 3M chief and GE veteran has received fewer accolades. Even as he was winning in Washington, he was losing a battle in Seattle with the International Association of Machinists & Aerospace Workers. The IAM’s 27,000 Boeing workers struck on Sept. 6, replaying a late 2005 walkout that hobbled Boeing’s commercial plane building operations for 28 days. The new stoppage could stretch deep into the fall.

WORTH THE PAIN?

McNerney, who declined to comment, insists that Boeing needs flexibility in its labor contracts, saying in an in-house memo that it must “protect [its] long-term competitiveness.” He’s betting that the right to outsource—perhaps to countries that may then buy Boeing planes—is worth the pain of a strike. McNerney “will be judged by what labor relations look like over the next five years,” says Noel M. Tichy, a management professor at the University of Michigan’s Ross School of Business.

Critics also say McNerney took too long to replace executives in charge of a much delayed new 787 jet. So far, Boeing has announced three postponements totaling more than a year in bringing out the so-called Dreamliner. McNerney & Co. could have “moved more aggressively” to fix the problems, says Cai von Rumohr, an analyst with Cowen & Co. Boeing executives hope for a flight test by yearend—unless the strike forces further lags.

Those delays may be the largest factor weighing down Boeing’s stock price. After soaring past 107 last year, shares have fallen to about 62. Since that’s a couple of dollars below the price when McNerney became CEO in July 2005, it may be his lowest mark yet. **|BWI**

JIM McNERNEY A Midterm Report

DISCIPLINE	Revamped Boeing after repeated scandals	↑
PLAYING WITH OTHERS	May compete anew for a \$35 billion airborne tanker Defense contract	↑
TEAM BUILDING	Battling with machinists, but outsourcing may reduce costs	↔
PUNCTUALITY	Unable to deliver a new 787 on time	↓
PRESENTATION	The stock trades lower as he struggles to win over Wall Street	↓

BUY, SELL, OR STAY PUT?

ADVICE FROM THE PROS

By Amy Feldman

If you're feeling pummeled by market mayhem, you're not alone. With Lehman Brothers filing for bankruptcy, Merrill Lynch selling out, and AIG getting a government bailout, investors have been knocked for a loop. Financial advisers have been fielding phone calls from panicked clients, but the smarter ones called their clients first to put things in perspective. "My issue with my clients is: Are they getting to a place where they cannot sleep?" says David Diesslin, a financial planner in Fort Worth. *BusinessWeek* spoke with more than 15 of the country's top financial advisers to find out what's keeping their clients awake at night. Here's what they're telling them to do about it.

Should I pull my money out of the market?

In short, no. With the Dow Jones industrial average down 4.4% on Sept. 15, and off 22.9% from its peak last October, investors are undoubtedly watching portfolios shrink. Right now, it's hard to see beyond the bad news. But the market has survived major upheavals in the past—the savings and loan crisis, for example.

In fact, a number of advisers see a positive sign in the government's decision to allow Lehman to fail. "In the short term, there will be volatility and uncertainty, but the world didn't come to an end," says Coral Gables (Fla.) financial planner Harold Evensky, who was rebalancing clients' portfolios to make sure equities kept their weighting after the sell-off. "Investors who are properly invested own little pieces of companies around the world, and, for the most part, those companies are still fine and making money."

The smart strategy remains the tried-and-true one: Set your asset allocation and stick with it. Panic selling is more likely to harm your portfolio than doing nothing. "Selling at the bottom is not a good strategy, but I'm not a soothsayer," says Laurence Kotlikoff, an economics professor at Boston University and president of ESPLanner. "All I can say is, I'm staying in the market. The U.S. economy can get along quite nicely with fewer Wall Street in-

vestment companies, none of which seems able or willing to tell shareholders precisely what they are holding."

I have a life insurance policy or annuity with AIG. What will the Federal Reserve bailout mean for me?

It means you can take a deep breath. Even when there was a risk of bankruptcy, American International Group's insurance subsidiaries appeared healthy and policyholders weren't really at risk. There are numerous safeguards in place for policyholders. Now, with the government injecting \$85 billion into the parent and the risk of bankruptcy gone, policyholders should be able to stop worrying.

What about my money market fund? Could it be affected by the market turmoil?

Sadly, yes. On Sept. 16, The Reserve Fund announced that hundreds of millions of dollars of debt securities issued by Lehman and owned by its Primary Fund were worthless. That means The Primary Fund "broke the buck"—net asset value fell from \$1.00 per share to \$0.97. At Evergreen Investments, however, parent Wachovia announced it would support the value of three money funds so they would not reflect the decline in value of Lehman debt. Several other money funds have followed suit.



What if I now realize my investment strategy is way off? Should I move my money?

If you were 100% in equities or overweight in your own company's stock, it's good to get out of denial about the risks. "This is a wake-up call for a lot of people," says Christine Fahlund, a financial adviser at T. Rowe Price Group. "People are finding out that their risk tolerance isn't what they thought it was or that they're not superstars when it comes to investing."

The big question is how quickly to act. "It's not a good time to sell anything, so it depends how bad it really is," says George Feiger, chief executive of Contango Capital Advisors in Berkeley, Calif. Investors not yet approaching retirement may be able to move portfolios toward a desired asset allocation slowly and wait for the market to settle down.

Will I still be able to retire?

The real reason to worry isn't market movements, no matter how nerve-wracking; it's whether you're saving enough. If you're in your 20s, 30s, or 40s, you've got lots of time on your side. "With a longer time horizon, say 10 to 20 years, even the crash of 1987 looks like a blip,"

says Michael Mauboussin, Legg Mason's chief investment strategist.

For some people on the verge of retirement, there's a tougher reality that may mean working longer. Psychologically, being able to blame the market turmoil is helping investors cut through their denial about how long they're going to need to work to have a comfortable retirement. "It's the first time that people are saying publicly, 'In this market, I am not ready to retire,'" Fahlund says. "The reason is probably more than just their investments, but finally they can share these emotions with people and feel like they are in this together."

What if I'm already retired?

The big problem is the cash squeeze that can come from the double whammy of lower asset values and interest rates. With your portfolio throwing off less cash, you may be tempted to reach for yield. Or you may consider selling assets—at what are now low valuations. Do either, and you could face trouble in the long term. "It's easy to tell a guy who's 35 and panicking that this is the wrong time to sell. But the consequences are worse if you're older, and it's harder to overcome the emotion and fear," Feiger says. Be sure to run the numbers, and don't assume you'll be short because of the plunge on Sept. 15.

Is this a buying opportunity?

That depends on your risk tolerance. "We may not have final markdowns yet, but if you have the stomach, some investments are looking cheaper," Diesslin says. Even so, he'd steer clear of financials.

Stephen Wetzel, a financial planner and adjunct professor of financial planning at New York University, is far less circumspect. "I'm buying like a crazy man: value stocks, financial services, value funds, muni bonds, some international small cap. You don't get opportunities like this very often." | **BW** |

— With Christopher Farrell and Lauren Young

**THE DOW,
THEN
AND NOW**

-22.6%

Oct. 19, 1987

-4.4%

Sept. 15, 2008

BUSINESSWEEK TV

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BOTTOM FISHING IN ROUGH WATERS

By Aaron Pressman

The dramatic market dive of Sept. 15 reminded many professional investors of the panic-induced selling of Black Monday in 1987 or the worst days of the bear market in 1974. But while those episodes took place before major market turnarounds, that's not the scenario pros lay out today. They see selected opportunities but

remain cautious overall, alert to risks that may be buried in teetering financial firms.

Bill Gross, manager of the \$132 billion PIMCO Total Return Fund, thinks the unwinding of debt that is roiling the markets is leading investors to dump both good and bad securities without differentiating. Rob Arnott, chairman of Research Affiliates, a money management firm in Pasadena, Calif., describes this as "a target-rich environment." But, he notes, "people have to be careful not to fall for a sucker punch by disregarding the fact that assets are priced low when perceived risk is high."

Gross and Arnott, along with many other market veterans, urge investors to think about safety first. And nothing matches the safety of short-term U.S. government Treasury bills, as well as savings bank deposits and certificates of deposit, which typically are insured up to \$100,000 per individual account. Short-term Treasuries are where economist and former money manager Peter Bernstein, author of *Against the Gods: The Remarkable Story of Risk*, placed proceeds from the sale of his Vermont vacation home. "I wouldn't want to put

it anywhere else," he says.

Bernstein wouldn't, for instance, go into long-term Treasuries. Gross—manager of the world's largest bond fund—isn't a fan of the world's biggest long-term bond market, either. In the Sept. 15 stock market rout, investors ran screaming into Treasuries, pushing the yield on the 10-year note down to 3.25%. At that level, says Gross, the yield doesn't compensate for the risk of losses from higher interest rates down the road.

Gross suggests looking at Treasury Inflation Protected Securities (TIPS). Panic selling hit the TIPS market on Sept. 15 as investors who needed to meet margin calls sold whatever was readily saleable, he says. At market rates on Sept. 16, the buyer of a 5-year TIPS would collect a yield of 1.31% plus any increase in the consumer price index. Yields on 20- and 30-year TIPS are over 2%. Investors can buy TIPS from the Treasury Dept.'s Web site or use the iShares Lehman TIPS Bond Fund, which has fallen more than 5% over the past six months.

Dan Fuss, a 50-year veteran of money management and co-manager of three mutual funds for Loomis Sayles in Boston, sees bargains among investment-grade corporate and municipal bonds as well. "It's as cheap relative to the rest of the world as I've seen in more than 50 years," he says. Fuss oversees bond



Bernstein (top) favors short T-bills; Fuss (left) is in quality debt; and Avery will watch and wait, cash in hand

Consider Treasury Inflation Protected Securities (TIPS), or investment-grade corporate and municipal bonds

funds that can invest across the fixed-income spectrum, from the least risky government securities to the most dangerous junk bonds, but says he's patiently looking to buy in the middle.



CLOSED-END BARGAINS

Arnott, who manages the PIMCO All Asset Fund, along with other money, is looking at emerging markets debt. Emerging markets have been hit just as hard as more developed markets over the past week, but their economies may be on sounder footing, he says. He likes PIMCO's Developing Local Markets Fund. There are also several exchange-traded funds (ETFs) in the sector, including the iShares JPMorgan USD Emerging Markets Bond Fund and the PowerShares Emerging Markets Sovereign Debt Portfolio.

The market for closed-end funds has also suffered a severe blow. Closed-end funds issue a set number of shares that trade on an

Gross:
Watch out
for higher
interest
rates

prices can't rise until inventories fall, inventories can't fall until foreclosures start to drop, and all of that is months and months away."

The sector that lost the most on Sept. 15 was not financial services, surprisingly, but energy stocks, which were crushed by a \$5 drop in the price of oil. After rising more than 50% through the end of June, oil now stands below \$95.98 a barrel, where it started the year. But Jerry Jordan of the Jordan Opportunity Fund is buying both energy and materials companies. All of the measures taken by the Federal Reserve and other central banks to shore up the global economy will start to help in 12 to 18 months, he says. "Demand will come back and we'll have another tight environment by the second half of 2009."

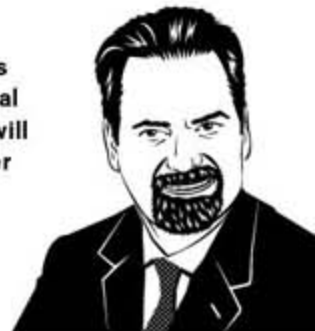
Few if any managers recommend full-fledged buying of stock market indexes, though some sense that the bottom for the stock market may be near. To confirm that a bottom has been reached, Michael Avery, co-manager of the Ivy Asset Strategy Fund, wants to

see the Standard & Poor's 500-stock index stay in the 1200 to 1250 range for a couple of months. That would give investors time to evaluate U.S. election results, the state of the credit market, and the strength of the Chinese economy.

The emotions running high have made Avery more optimistic, not less. For now, though, he's maintaining his defensive posture; half of his \$15.4 billion fund is in cash. "Just because we are forming a bottom doesn't mean that the market has to go higher," Avery says. **| BW |**
—With Christopher Farrell, Amy Feldman, and Lauren Young

Jordan
sees big
opportunities
in materials
and energy

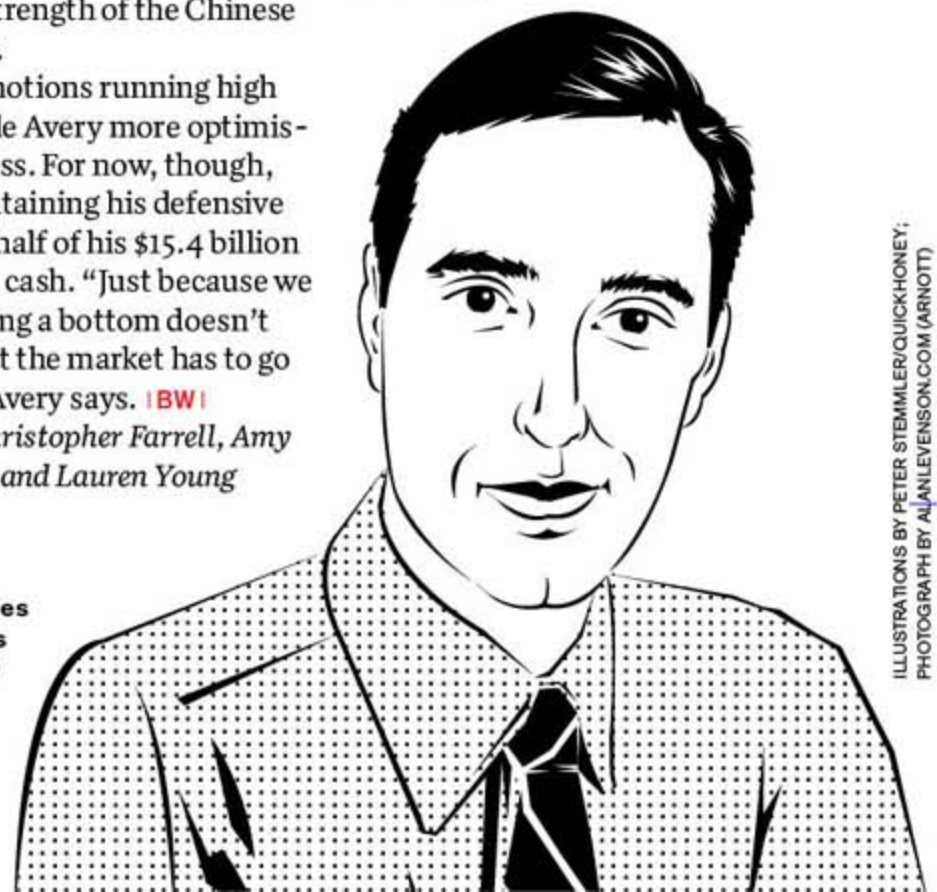
Arnott says
the financial
survivors will
be stronger
than ever



On the equity side, early bargain hunters have been badly burned, so most have backed off for now

exchange, so unlike a mutual fund, the price can vary greatly from the value of a fund's portfolio. Tom Herzfeld, who has invested in closed-end funds for decades as president of Thomas J. Herzfeld Advisors in Miami, says he has never seen discounts to net asset value as big as those he's seeing now. Shares of Western Asset Emerging Markets Debt Fund, for example, trade at 25% less than the value of the fund's assets. But despite big discounts, he's staying away from some of the newest funds, which rely on complicated trading strategies such as selling call options on a portfolio of stocks. "Most of these strategies have backfired," he says.

On the equity side, the question of the day is whether the financial sector has hit bottom. With major banks and brokerage firms disappearing into the subprime muck, the survivors eventually will find themselves operating with fewer competitors. But early bargain hunters have been badly burned, so most are hold-

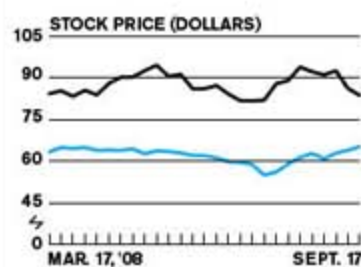




HOW SOME MAVENS ARE RIDING OUT THE STORM

Apart from the resolute contrarians who saw the Dow Jones industrial average's 504-point crash on Sept. 15 as an opportunity, more than a few smart-money players cooled their heels and stayed out of the market. "The events unfolding are part of the deleveraging process the economy must endure, and the process is far from complete," says Joseph Battipaglia, market strategist at Stifel Nicolaus' Washington Crossing Advisors.

ON AN EVEN KEEL: GD AND KIMBERLY



Data: Bloomberg Financial Markets

before—on 9/11, in 1987, and in 1973. The world survived, and markets made sharp recoveries." Battipaglia remains 86% invested in stocks, 11% in bonds, and 3% in commodities.

Pros like Battipaglia still favor staples that are immune to finance shocks. Among his favorites are General Dynamics (GD), the world's sixth-largest military contractor and a top maker of corporate jets, and Kimberly-Clark (KMB), a major consumer products company. Battipaglia sees Dynamics, down to 82.12 a share on Sept. 17 from 84.93 the day before, shooting to 105 in a year. He expects Kimberly, unchanged at 64.45 on Sept. 17, to rise to 87 in a year.

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The results of Lehman Brothers' bankruptcy filing, Merrill Lynch's sale to Bank of America, and AIG's bailout have yet to be determined, he notes. So he is leaving unchanged his portfolio allocation. Ditto for Donald Gimbel, senior managing director at Carret Asset Management. "Panic selling never works," he says. "We have seen this be-

MGIC MAY HAVE FARTHER TO FALL



Data: Bloomberg Financial Markets

Bad News for this Mortgage Insurer

You may think MGIC Investment (MTG), whose shares have been trashed—to 5.35 on Sept. 15, the day of the Dow's precipitous drop, down from 36.81 a year ago—has taken enough of a pummeling. But since it's a major provider of private mortgage insurance to thrifts, mortgage bankers, and other institutions, some pros expect it to skid even more. It has already fallen below the 8.35 price target of Eric Rothmann of Zacks Investment Research, who rates the stock a sell. On Sept. 17, MGIC closed at 5.49. Rothmann says MGIC continues to be battered by the rising number of delinquent loans and foreclosures brought about by the continued decline of home prices.

Kevin Cole of Standard & Poor's, who rates MGIC Investment a hold, says it may have to raise new capital, although it already raised \$365 million in April to cover losses.

TIME FOR SOME JUICE AT MEDIS



Data: Bloomberg Financial Markets

From Medis, a Hot New Fuel Cell

Finally it's here: a small portable fuel cell that charges cell phones and other mobile devices. Medis Technologies (MDTL), which developed the disposable power source capable of providing multiple recharges to portable electronic devices such as cell phones, MP3 players, and handheld video games, has teamed up with Best Buy to market the product. In mid-October, Best Buy, which is now selling a basic version, will start selling the more powerful 24/7 Medis Power Pack that can charge smartphones, such as the iPhone and BlackBerry, for \$49.99. BlackRock, the largest publicly traded U.S. asset manager, is Medis' biggest shareholder, with a 20% stake. Israel Aerospace Industries owns 12%.

Researcher MatrixUSA, which rates Medis a buy, says the stock is undervalued. It hit a high of 10.29 on Apr. 21 but plunged by Sept. 17 to a low of 1.97. | **BW** |

MEDIA CENTRIC | JON FINE

Election 2008: Blogs, Schmogs!

Despite YouTube, and incessant online chatter, the campaigns look awfully familiar

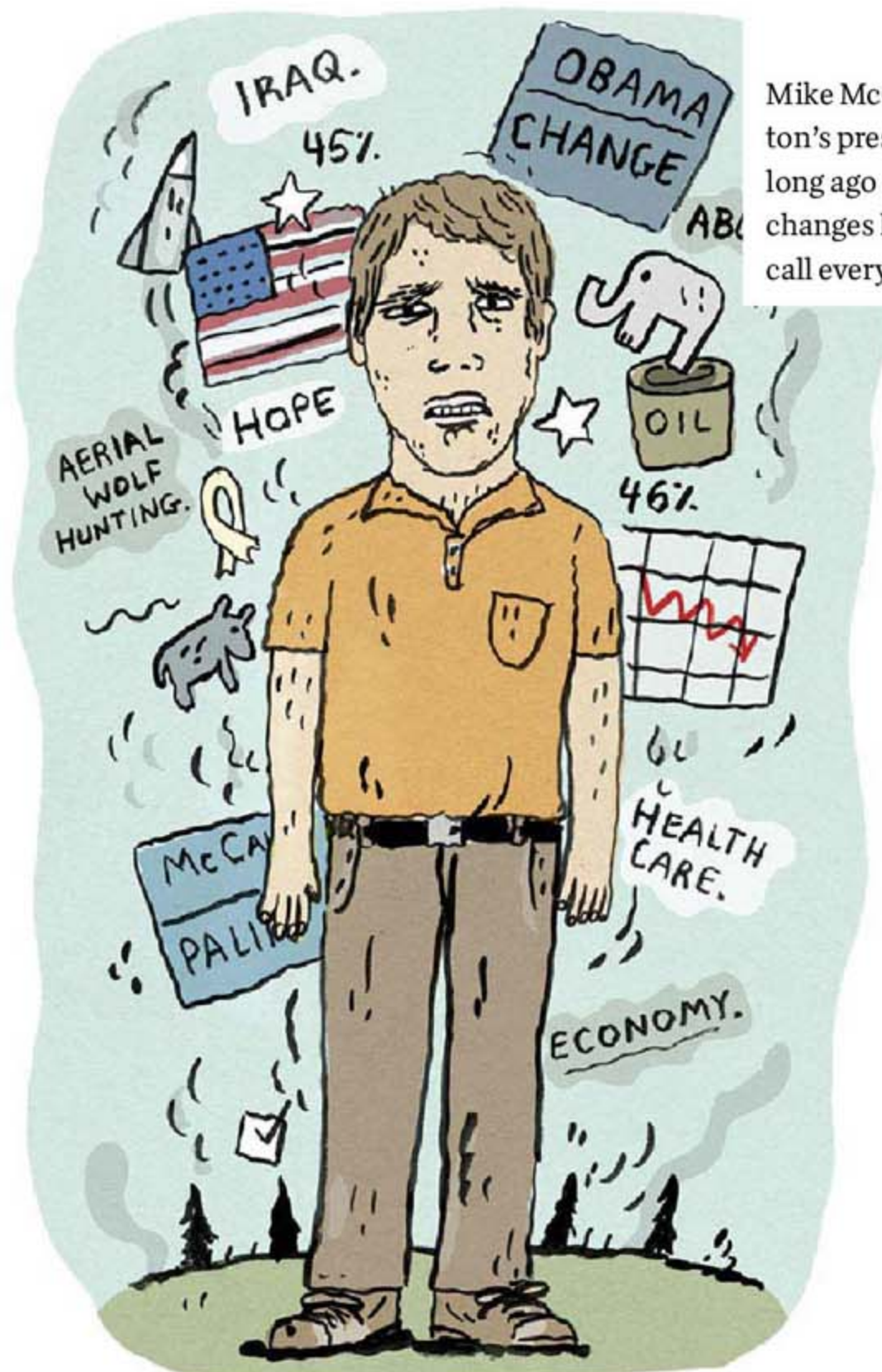


Mike McCurry, formerly President Bill Clinton's press secretary, has a story about one long ago campaign that illustrates what media changes have wrought. "We had a conference call every night to discuss how the networks'

nightly newscasts portrayed the election. That's an utterly useless call now."

I'm sorry, did I say "long ago?" McCurry was talking about 2004, when he was a senior adviser to Democratic Presidential nominee Senator John Kerry. That call, he says now, was "a fundamental navigation point for where we [were]." But tracking the evening news "turned out to be a fundamentally wrong choice. What was happening underneath us was this enormous swell of the grassroots" that was invisible to those newscasts. Indeed, it was invisible to much of the media world—including portions that tilted to the right—until fired-up evangelicals turned out en masse and re-elected George W. Bush. Today's media world—forgive me for stating the obvious—is much different from that of 2004. But those differences have ramifications that may yet surprise.

The severe compression of the post-convention campaign makes this both the longest and shortest Presidential election cycle ever. I mean, Barack Obama and John McCain started campaigning in earnest in...when, 2005? 2002? Recall, too, the sheer volume of major events. In one recent 96-hour period we witnessed the following: Obama's acceptance speech;



McCain naming Sarah Palin as his Vice-Presidential nominee; Hurricane Gustav boring in on New Orleans; and Bristol Palin becoming the most famous pregnant teen since Jamie Lynn Spears. (Since then, we've experienced Hurricanes Ike and Wall Street.)

And now it's easier than ever to get the informational equivalent of an ice cream headache. In 2008 those desiring a quick, real-time dipstick check of certain precincts of the electorate can scan their Facebook pals' status updates, or assemble ongoing focus groups on Twitter. (Remember: Facebook, Twitter, and YouTube did not exist in 2004, and MySpace had yet to scale galactic heights.) On top of saturation coverage from established media outlets comes a new explosion in online offerings. During the 2004 election, political junkies could spend hours each morning with abcnews.com's The Note, which wrapped tart commentary around links to all major political stories. Now, there's also The Page, which Note founder Mark Halperin updates more or less constantly at Time.com, and a well-reported blog by another Note founder, Marc Ambinder, for The Atlantic. Also, among other newcomers, Politico, the full-bore online political news operation that launched in 2007, and the estimable FiveThirtyEight, which dispenses admirably nutritious information several times a day. On Sept. 11, FiveThirtyEight pointed out that the endless info bloat will extend to polls, too: "It looks like we're going to be averaging something like 10 to 20 state polls and 6 to 7 national polls per weekday"—and

You can read blogs all day long, but the campaigns are focused on those swing-state voters who are just tuning in



Media coverage abounds, but the campaigns still control the access

possibly more as Election Day draws nearer. (Prepare yourself.)

Yet in 2008, more turns out to equal less. The Web, we are told, ushers in transparency. In the current general election it has gotten us two of the tightest, most locked-down campaign message machines in memory. (John McCain's once-legendary openness to the press is now long gone.) The explosion in outlets isn't offering more news so much as increasing the power of those that have scarcity on their side: the campaigns themselves.

ECHO CHAMBER

The Republican campaign shielded the suddenly famous Palin from the press—indeed, from any unscripted settings. You, like me, may find this ludicrous, but the populace punished them with a bounce in the polls, at least in the short-term. And in the eyes of some smart observers, swelling outlets and contracting access has had the perverse effect of increasing, not decreasing, herd mentality. "You'd think all this press attention would put a higher premium on originality," says James Bennet, editor of *The Atlantic*. Instead, he says, "the echo chamber has intensified." But then today politicians can watch their Twitter and Facebook feeds all day long and thus constantly monitor—and shape—the assumptions of a collective brain.

In 2008 you can roll your own campaign: Watch unexpurgated speeches on YouTube, scan customized news and blog feeds. But

in the endgame of an election, that's not terribly significant. If you recognized yourself in the aforementioned description, you're what the campaigns call a "high-information voter" and probably made up your mind long ago. The campaigns are now focused on the "low-information voter" just tuning in. Congrats if you can spit out the results of the last three Ohio polls right down to the margin of error, but the campaigns care more about the harried parents of three kids in exurban Colorado who've only started to pay attention. As always, those voters will be pounded with messages as simplistic as an old Miller Lite ad. ("Not Ready to Lead!" "More of the Same!") Given today's information noise, don't count on sober debates about the issues—or clearheaded refutations of questionable ad claims—to gain much traction, unless you love courting disappointment.

Yes, the Obama campaign has banked on organization and the power of the social networking aspects of mybarackobama.com, hoping to propel more supporters to the polls on Nov. 4. But we won't know until then if the strategy will work. Instead, the one game in town is, again, a blunt-tool campaign aimed straight at disengaged swing-state voters. Despite hundreds of new online outlets, despite millions of new YouTube videos, that campaign will remarkably resemble those of the past. |BW|

BUSINESSWEEK.COM |

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



Any Movie, When and Where You Want

RealDVD lets you rip video from a disk quickly and easily. And so far, it's legal

I'm on another boring transcontinental flight. They're showing *Prince Caspian*, but I already suffered through that on my last trip. Not to worry. I've got my lightweight laptop in hand, and although it lacks a DVD drive, the hard disk is loaded with a season's worth of HBO's *The Wire* and a selection of movies from my DVD library.

This is a bigger deal than you might think. While there are other ways to watch movies on the go, including bringing disks or using a download service such as the iTunes Store, they are all flawed. The new alternative, which I used on my flight, is software called RealDVD, from RealNetworks (\$30 introductory price; 30-day free trial available). The program makes it easy to rip video from a disk in just a few minutes. And—until someone says otherwise—it's legal. There are some irksome restrictions, but that's the price of being able to copy DVDs at all.

If you have a teenager at home, you know that ripping DVDs isn't new. But until now the programs that do it have been distinctly user-unfriendly. The one exception, a product called DVD X Copy from 321 Studios, was forced off the market by a film industry lawsuit in 2004. Indeed, DVD copying is illegal in many countries. In the U.S., courts consider it a copyright infringement to distribute software that circumvents the "content scramble system" (CSS) used to protect DVDs.

The studios may yet go after RealDVD, but Real has jumped through a lot of hoops to avoid that fate. This is where the annoying restrictions come in. Real not only retains the CSS encryption—a critical legal technical-

ity—but also adds an additional layer of protection. Once you have copied a DVD to a hard drive, you cannot move the contents to another drive. You can save your copy to an external drive, but it cannot be shared by more than five Windows computers. (In theory, you



could also use a USB memory key, but the huge files of up to 9 gigabytes per DVD make that impractical.) Each extra PC must have its own copy of RealDVD, which costs \$20 each for your second or third computer—up to five in all. Unlike illegally ripped copies, you cannot create a separate version and watch it on an iPod or other handheld player.

There are, of course, legal alternatives to RealDVD. A number of services sell or rent movies and TV shows that can be downloaded to a computer and watched at your convenience. But only a fraction of all DVDs are available online, and the downloads

lack the extra features, such as directors' commentaries, found on DVDs. Besides, it's ridiculous to have to pay again for a title you already own. If your laptop has a player, you could simply take DVDs along, but you risk losing or damaging the disks.

RealDVD warns you that the software may be used only to copy disks you own. As a practical matter, though, there is nothing but your conscience to stop you from recording a copy of a DVD rented from Netflix or the local video store or borrowed from a friend. That fact might be the basis for legal

action against RealDVD. Company officials say their talks with the studios have been encouraging but noncommittal. I hope that, for once, the studios will see new technology as an opportunity rather than a threat.

In the long run, I believe consumers want to be able to pay for content once and get to watch it where, when, and how they wish. That's certainly been my goal for a long time. RealDVD, with its many industry-imposed restrictions, doesn't get us there, but it does move in the right direction. **| BW |**

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Other services sell or rent movies and TV shows that can be downloaded, but not many titles are available



How to Avoid the Next Big Crisis

To anticipate—not just react to—major problems, we need to reinvent Washington

In recent weeks we have seen heroic actions by financial regulators. From the Treasury Secretary to the Federal Reserve to the New York State insurance commissioner, public officials have worked tirelessly to control the chaos in the financial marketplace. Once again, it is clear that America has learned very well how to respond to crises.

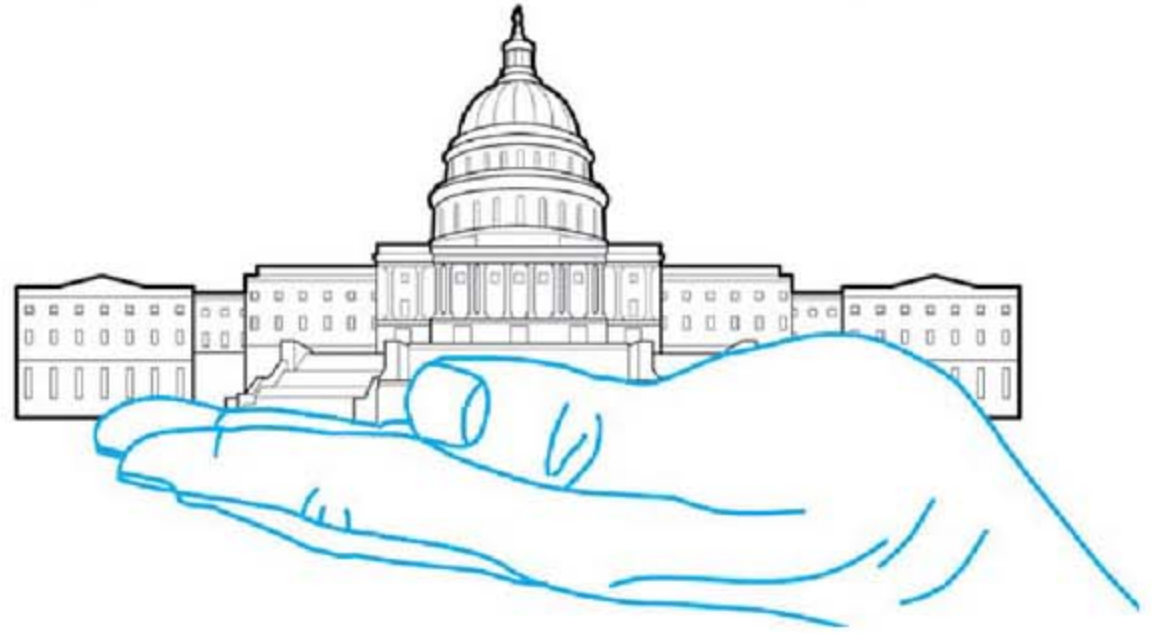
But is that all we have learned? It's a question we need to ask ourselves and our candidates for President and Congress. Amid the ongoing turmoil, it seems obvious we must reinvent our government and create an efficient system that can anticipate and avoid major crises. Despite many opportunities, however, this is not a lesson we have taken to heart. Whether the task is fixing health care, upgrading K-12 education, bolstering national security, or a host of other missions, the U.S. is better at patching problems than fixing them. Part of the reason is that we have two parties lacking comity and a sense of shared national responsibility. But beyond the partisan divide, I would argue that the processes of government are broken, preventing us from taking responsible actions.

Visit USA.gov and you'll find thousands of directorates, agencies, boards, offices, and services replete with overlapping responsibilities, ancient priorities, and divided accountability. We do not need Departments of Commerce, Labor, and Education; we need a single Department of Skills that will promote an integrated approach to global competitiveness. Our military should be trained and structured around missions, not the elements of air, water, and land. That requires fundamental change, but instead, the Defense Dept. has established an overlay of "commands" to compensate for organizational deficiencies. Does it make sense, in 2008, even to have a Bureau of Alcohol, Tobacco, Firearms & Explosives? If so, why is it part of the Treasury Dept.?

Then there's the financial sector. Behind the debacles at Bear Stearns, Fannie Mae, Freddie Mac, Lehman Brothers, and Merrill Lynch lies a startling failure to modernize our regulatory systems, despite obvious changes in the financial markets. Ben Bernanke and his colleagues at the Federal Reserve have done an extraordinary job in the past 12 months, but the regulatory processes in place are ad hoc and depend

official. This reengineering team would report to the President and four to six congressional leaders, who would meet once a month to review its analyses and recommendations.

If the idea sounds familiar, it's because we tried this approach once before, under President Ronald Reagan. I'm thinking of the 1982 Grace Commission, which was led by 161 top executives from the private sector. The commission concluded that nearly one-third of all taxes collected by the federal government are squandered through inefficiency. And it came up with 2,478 recommendations that, together, might have transformed the basic processes of government while saving hundreds of



on leaders undertaking risky initiatives. Now more than ever, we need a single federal organization to oversee all of our financial institutions.

If our new President and our congressional leaders accept the need to reinvent the federal government, it will take a bipartisan, multiyear effort that draws on the experience of our business community. I would like to see a team of business leaders and experienced government staff led by two co-chairs: one business executive and one former high-level Washington

billions of dollars. Few of the recommendations were ever tried.

Today, the goals of such a commission would be different but the spirit would be the same. Would it succeed? If nothing else, the gravity of the current financial and economic crisis might force new leaders to study the panel's findings and strive to make government more effective. The future of our country may hang in the balance. | BW |

Louis V. Gerstner Jr. is the retired chairman and CEO of IBM.

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FORD'S DIESEL FIESTA**STEERING CLEAR OF THE U.S.**

Readers fired off more than 1,500 comments in response to our story about Ford Motor's decision to sell its new diesel-run Fiesta only overseas ("65 MPG—but the U.S. Can't Have It," What's Next, Sept. 15). Many readers, including fans of low-sulfur diesel, wondered why Ford would keep such a headline-grabbing, Prius-beating car away from U.S. buyers. Others bashed diesel cars—even those that use filters to make their exhaust as clean or cleaner than gas-fed cars. And a few said they understood Ford's reluctance to export the car from Britain, where it's made, pointing to inadequate diesel supplies in the U.S. and taxes that keep diesel more expensive than gas at the pump. —*David Kiley*

GM gave diesel cars a bad name with the junk they tried to pawn off on us. Congress is also to blame for the excise tax on diesel.

I have a 1981 VW [diesel] Rabbit with 360,000 miles on it, and I still get 50 to 55 mpg. I also have a 1985 Ford Escort diesel station wagon that gets 48 mpg.

If the government would get out of the way and let free enterprise prevail...

Screen name: Robert

I lived in Europe for 40 years. Whatever they say, diesel stinks. The particle filters work, but only when the car is new.

Screen name: fmarc

Come on, Ford, be bold. Retool a closed plant to build

the Fiesta Diesel. Americans would dig it if it were "Made in the USA"!

Screen name: Tim

The situation is a little more complicated than some make it out to be.

It's not as simple as dropping a diesel engine into an existing vehicle. The factors include emissions standards in all 50 states that are far more stringent than Europe's, the cost of building plants to make diesel engines, uncertain demand, and the future price of diesel with respect to gasoline—given the likelihood that the price would rise if demand did.

All this means that the payback to the customer wouldn't be realized for years. While it's too early



to discuss what power-trains will be in the Fiesta when it debuts in the U.S. in 2010, we're confident the car will be a fuel-economy leader.

Scott Monty
Global Digital Communications
Ford Motor
DEARBORN, MICH.

OIL**ALASKAN DRILLING:
THE SIZE OF THE TOLL**

In talking about extracting oil in Alaska, Sarah Palin asserts that 2,000 acres in the Arctic National Wildlife Refuge's 20 million-acre plain is "like a postage stamp on a football field" ("Sarah Palin on the Energy Challenge Facing America," Facetime, Sept. 15).

To be a realistic compari-

son, that stamp would need to be 648 square inches. While most people wouldn't notice a stamp-size piece missing from a football field, they would notice a missing doormat-size piece.

Paul Dietz
REDMOND, WASH.

**CORRECTIONS &
CLARIFICATIONS**

In "Scanning News for Slant and Cant" (Opinion, Sept. 22), a quote ("We're all biased") from Roger L. Simon, founder of blogging network Pajamas Media, was mistakenly attributed to Politico.com columnist Roger Simon.

"Putting Vets to Work" (BTW, Sept. 22) erroneously described Dayak, a recruiting Web site. It connects hiring companies with recruiters.

"A Beacon of Sanity in Subprime" (In Depth, July 7) should have cited Moody's Investors Service as the source for a finding that lenders have restructured 1% of troubled mortgages.

Tapping the Wisdom of Crowds, Step by Step

The latest entry in a frenzied field is a welcome playbook for confusing times

It's nearly impossible for an executive to wander the halls at a conference or flip through a research report these days without receiving words of wisdom about the power of the crowd. Consumers are using wikis, blogs, and social networks to make an impact on brand building, publishing, and even product creation. Working together—often unwittingly—by adding material to Wikipedia or by rating songs on music site Last.fm, they're creating a vast shadow workforce. All this is clear. What may be less obvious to businesspeople is just how to get the crowd to work for them.

Jeff Howe is a *Wired* magazine writer who first analyzed the phenomenon from the outside and coined the word "crowdsourcing" for how business was enlisting the masses to help stoke a popular trend. In a neat trick, he is now offering advice on how businesses can adapt. In *Crowdsourcing: Why the Power of the Crowd is Driving the Future of Business*, he explains how companies, from startups such as iStockphoto to established giants including Hewlett-Packard and Dell, are embracing the digital herd.

Books about the crowd are becoming a crowd unto themselves. Four years ago, James Surowiecki provocatively argued in *The Wisdom of Crowds* that the masses are often better problem solvers than the experts. Earlier this year, Clay Shirky's *Here Comes Everybody* updated that theme, explaining how Web 2.0 social networking is reshaping conventional organizations. What sets Howe's book apart is his focus on business, an examination of different crowdsourcing models, and a deep dive into academic research to

explain why people work together. It's a welcome and well-written corporate playbook for confusing times, even though some of Howe's examples may be familiar to business readers.

The blueprint for crowdsourcing, Howe explains, is the open source movement, a community of developers who work together to create software alternatives to Microsoft's products. Much has been written about open source, but the topic is worth revisiting, since it helps explain the motivations of crowdsourcing participants. Like the open source geeks, many who work on crowdsourcing projects are amateurs or at best part-timers in the field to which they contribute.

Howe breaks crowdsourcing into four models, laying out examples that businesses can tailor to their own circumstances. In the first, "collective intelligence," companies including Dell and gold-mining group Goldcorp ask people inside and outside the company to help solve problems and suggest new products, such as Dell's Linux-based computers. The second model, "crowd creation," is used by businesses such as Current TV and Frito-Lay to

create news segments and video ads. People vote for their favorite T-shirt design at apparel maker Threadless' Web site, thereby illustrating "crowd

voting." Startups SellaBand and Kiva use the last model, "crowdfunding," to underwrite new music labels and fund microloans to individuals.

Howe's best example is iStock-photo, a startup that is undermining the established stock-photo business. The community began in 2000 as a vehicle for hobbyists who wanted to trade their pics. Two years later, iStock began selling photos for 25¢ each to cover bandwidth costs. Clients flocked

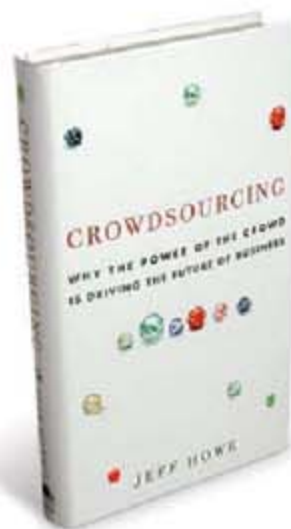
in, and in 2006, Getty Images bought the enterprise. Now, with 60,000 part-time photographers and illustrators on board, 3.5 million images in the bank, and 2 million customers, iStock is the world's third-largest dealer of images.

Howe sweeps away certain misapprehensions about such activity. While it's true that most

people who are involved don't get paid, they still need incentives. At iStockphoto, that comes in the form of workshops in which people

Crowdsourcing: Why the Power of the Crowd is Driving the Future of Business by Jeff Howe; Crown Business; 311 pp; \$26.95

meet and share expertise. And Howe warns that not all crowds are created equal. For example, he suggests that sports teams would do better to use fantasy-league enthusiasts rather than scientists to handicap up-and-coming athletes. Perhaps the hardest lesson for businesses is the importance of including people with whom you don't ordinarily work. Organizations reinforce similar approaches and inside-the-box thinking. When you're looking for something truly different, the crowd can lead you down a less traveled path. |BW|



The author breaks crowdsourcing into four models, laying out examples that businesses can tailor to their needs

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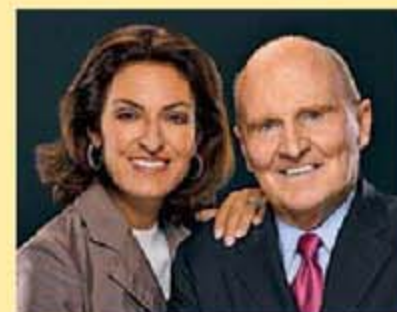
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To the Streetquake's Casualties

Advice for Lehman and Merrill staffers—or anyone caught in an M&A or bankruptcy



Given this week's events, what advice would you give to the employees of Merrill Lynch and Lehman Brothers?

Courtney Ellison
AMHERST, MASS.

First, we'd like to say that we're really sorry for their sense of loss. Being acquired and getting laid off are experiences that can hit you like a death in the family. The shock, sadness, anger, and confusion can make you want to enter into a period of protracted mourning.

Such a response is only normal.

But career-wise, such a response can be disastrous.

Look, we're not about to blithely tell Merrill's roughly 60,000 employees and Lehman's 22,000 to put on a happy face and get on with life. A massive earthquake just struck Wall Street; people will be reeling for a while.

But to the employees most directly affected, we are saying that you can't reel too long. At Merrill, people need to quickly adopt a No Resistance Mind Set. And at Lehman, they need to act fast to avoid the Vortex of Defeat.

Merrill first. For almost a century, it has been independent—and so proud that brokers were known to call themselves “the thundering herd.” Now it's a subsidiary of the mammoth Bank of America, the result of a rescue mission.

How do you suppose Merrill's employees will react? It's true that BofA has demonstrated a competency for M&A integration. Even so, if Merrill's people are like most acquired employees, some will balk. BofA's culture, processes, leaders, and way of doing business will seem different—and wrong.

Everything at BofA, basically, will seem worse than the good old days at Merrill, and many employees will say so, if not out loud then with their attitudes.

No, no, no! If you're a Merrill employee—or work for any acquired company—understand one thing. Your new owner has limited patience for pouters. They know M&A resisters slow work down and that their cynicism poisons the waters. That's why, when it comes to sorting out their new roster, the vast majority of acquirers choose buy-in over brains. Superstars may get a free pass, but if you're a “regular” type—say, a middle manager with a good track record—you may now be one of two people fighting for your job. Your margin for error, as BofA seeks to realize \$7 billion in “synergies,” is smaller than ever.

So to Merrill employees, we say: Honor your past, but put it away. Rescind your claim on victimhood, join the BofA team heart and soul, and work hard for its future. It's your best chance that BofA's future will include you.

Lehman employees face a harder challenge. They're looking for jobs in a shrinking industry flooded with experienced applicants, the kind of stymieing situation that can easily put people into a downward spiral of self-doubt.

The best antidote to this Vortex of Defeat is immediate action. You may want a breather to take stock of your life, but any delay on your part only allows other job seekers a head start on the opportunities available. You need to draw on your reservoir of self-confidence and start chasing leads today.

If you're thinking, “Fine, but Wall Street isn't hiring,” we hear you. Which

is why our next piece of advice is to broaden your search, on both the job content and geography fronts. A few

years back, we encountered a group of laid-off engineers in a medium-sized Midwestern city who had spent a year in vain looking for work. Their industry had largely left the region, but they all wanted jobs like their old ones. Worse, they'd put relocation off the table.

Sometimes, of course, “downsized” people can pick up where they left off, but rarely does that happen after disruptions on this scale. To move forward, Lehman employees will need to think expansively and creatively about



Outside Lehman Brothers' New York offices, Sept. 15

starting anew. That's scary, yes. But so is the option of waiting around for a “good fit” that may never come along.

Now, we don't expect Merrill or Lehman employees to readily embrace our message. Who wants to be told to let go of their understandable anger? But uncommon times call for uncommon solutions. Very reasonably, this week's tumultuous events may have you hungry for the past. We urge you to thirst for the future instead. | BW |

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

These are uncommon times, calling for uncommon solutions. That may mean you'll need to overcome your natural reactions